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**AUTOMOTIVE
MARKETING**

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INTRODUCTION

The aftermarket can seem overwhelmingly complex. This volume is designed to help sort out the complexities.

The automotive aftermarket can seem overwhelmingly complex, no matter whether you're talking about the distribution channels, the inventory needs, the competition, or the customer mix. This volume, our second annual Retail Aftermarket Guide, is designed to be an aftermarket primer for newcomers to the market and a graduate refresher text for veterans.

From macro subjects to micro topics, the articles in this volume examine today's state-of-the-art methods for selling parts (and service) to the owners of our nation's fleet, particularly those who are responsible for maintaining their own cars and trucks. We've tried to cut through extraneous ideas to get to our material's core, no matter what our subject: the complex

marketplace itself described in our first chapter, or vertical marketing to specific customer niches in a piece on lifestyle marketing.

At *Automotive Marketing*, we define ten market regions according to their geographic, sociological, and meteorological characteristics. So, the five county area containing Miami is its own unique territory. We explain this area, the Caribbean South, and its nine comparables, in an article on regional marketing.

Besides the regions, we take a good look at the people who buy aftermarket products, using data from our 1984 *Consumer Automotive Repairs Study (CARS)* and our 1987 *CARS* study to examine the trends of DIY activity during the past three years.

You can't market without products. Our chapter on products looks not only at the various product categories for automotive DIYers, but also at the special customer market segments within the aftermarket—truck, van, and utility vehicle owners,

performance enthusiasts, and professional installers.

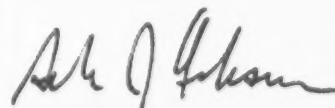
And, with the products in mind, and the target customers identified, you must be operationally strong. Our chapter on operations covers expansion and financial alternatives for growth.

More and more automotive parts retailers are looking at the lucrative essence of a good service bay operation. Our piece on service, and how to sell it profitably, can help retailers consider the possibility of adding to, or entering, the service world.

One can't find his or her way through this marketplace without directories, and our directory section provides these in a one-source Guide. This edition includes a partial listing of who-owns-whom-in-the-automotive-market, as up to date as we could be at press time. New to this volume, too, is a list of franchise operations.

All told, *Automotive Marketing's Retail Aftermarket Guide* will provide you with a year-round reference to the retail aftermarket. It belongs within easy reach on every working day. It would not have been possible without the extraordinary efforts of our award-winning *AM* editors, our contributors, our interns, and our production staff, nor without the support of our advertisers and our sales staff.

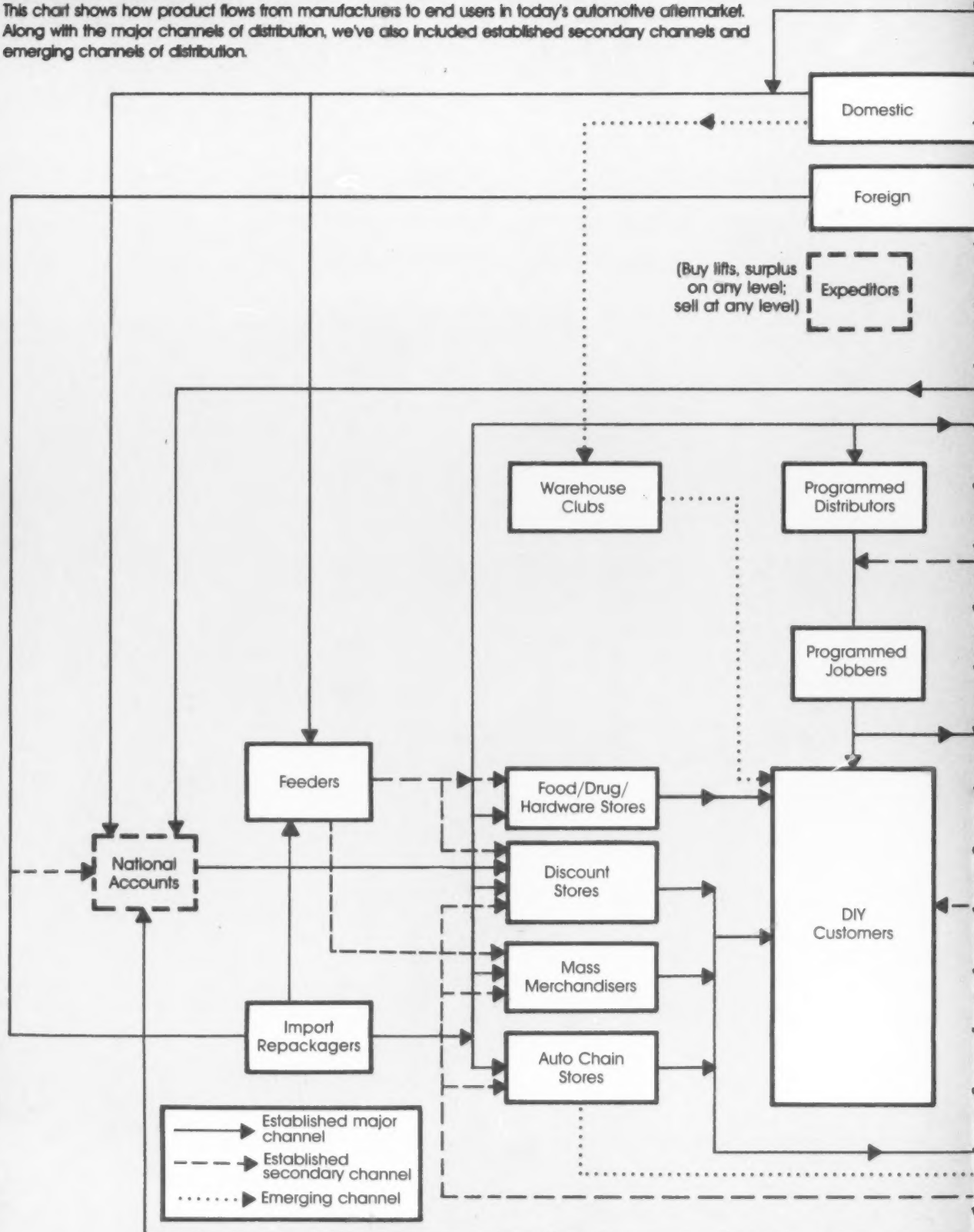
We want to provide you with the information you require to be successful and profitable in this market. Please take a moment, when you've read through this *Retail Aftermarket Guide* for the first time, to fill out our reader response card and tell us how helpful we've been, and how we can do even better. We're anxious to hear from you. ■

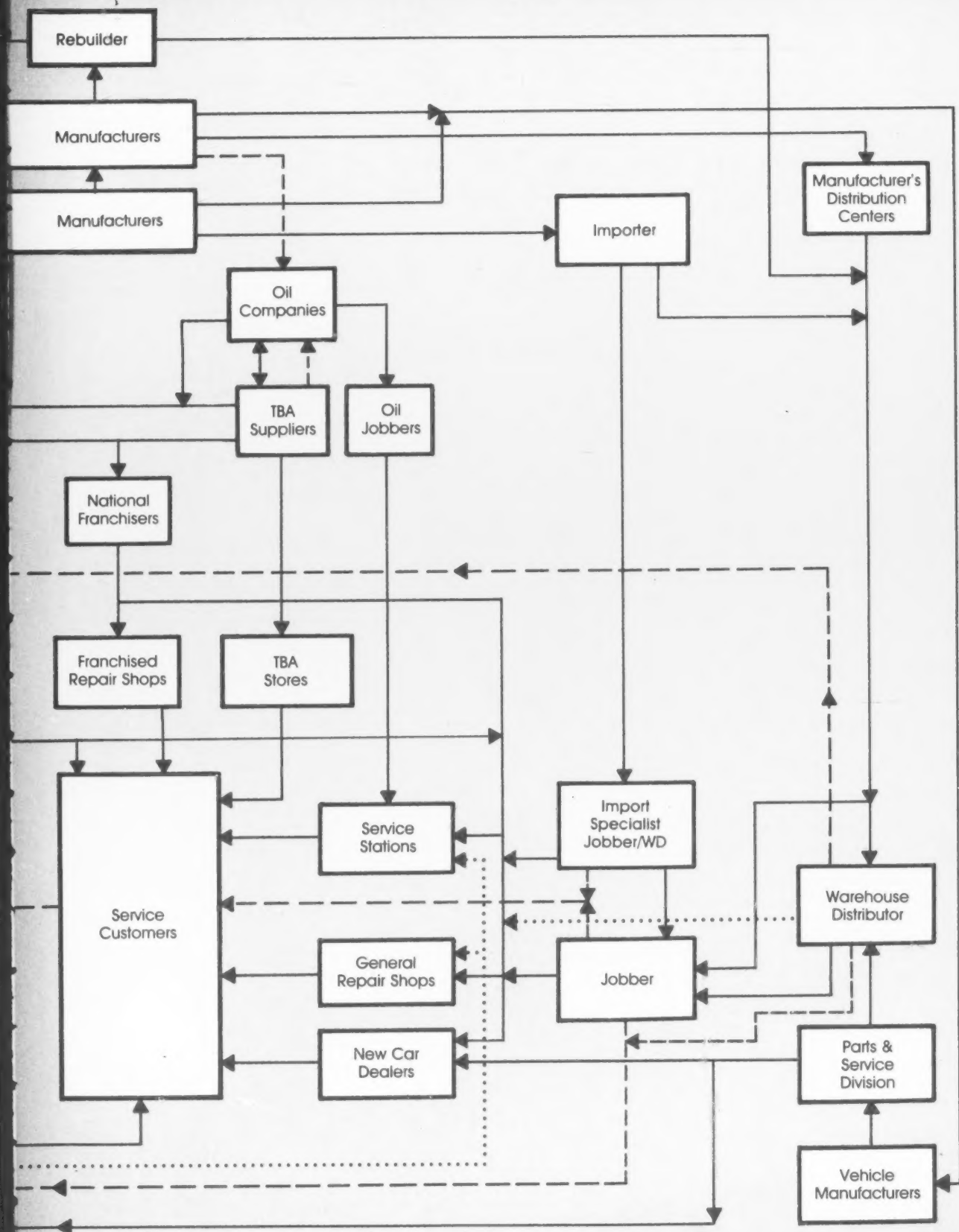


Sarah Frankson,
Publisher

AFTERMARKET DISTRIBUTION

This chart shows how product flows from manufacturers to end users in today's automotive aftermarket. Along with the major channels of distribution, we've also included established secondary channels and emerging channels of distribution.





THE MARKETPLACE CHANGES

The aftermarket has only two end users—DIYers and professional mechanics—but there are lots of ways to reach them.

To understand the distribution patterns of the automotive aftermarket, simply consider the two ways a vehicle can be repaired. Either the vehicle owner can do-it-yourself (DIY), or go to a professional.

The DIY market is served by what we call the retail market, comprised mainly of auto chain stores, mass merchandisers, and jobber/retailers. Professional technicians working in garages and service stations are served by what we call the traditional market—comprised mostly of jobbers who buy from warehouse distributors (WDs).

Although this is a grossly oversimplified picture of the automotive aftermarket, it was largely accurate for several decades, until the mid-1970s. However, during the 1970s, a combination of oil shortages, inflation, and a DIY boom changed the aftermarket. Today, the channels of distribution are confused and blurred; old loyalties among suppliers, distributors, and dealers are forgotten. The market is a hodgepodge of consolidations, mergers, acquisitions, and group pressures. And, the new players in the market are now the biggest players in the market. The traditional market faces a revolution.

The single best word to describe today's aftermarket is: fragmented. What was once a well-ordered, stable market has become a confused market. A DIYer seeking a set of spark plugs can buy them at an auto chain store, a mass merchandiser, a jobber/retailer, a traditional jobber store, many grocery, hardware, and department stores, some drug stores, and at conve-

nience stores. And these are only the major players. A non-DIYer can go to a car dealer, a gas station, a garage, a mass merchandiser, an auto chain store, a tire store, a tune-up specialist, and maybe some outlets we missed.

How did this market change so much? Why have the lines of distribution blurred? Who are the new players? Why have traditional loyalties eroded? We can't answer all those questions, we can only suggest some of the major trends and changes that have taken place in the market.

What we call today the traditional market (WD to jobber to professional installer) is really the new kid in town while the retail market is almost as old as the automobile. Western Auto, for example, was founded in 1909, and such chains as R&S/ Strauss (1919), Penn Jersey (1920), Pep Boys (1921), and others opened soon after. In addition, mass merchandisers such as Sears and Montgomery Ward

have carried automotive parts in their stores and catalogs since the Twenties.

In fact, the aftermarket was basically in place in the Twenties with three channels of distribution. By 1929, there was a well-developed OE service market (car makers and their dealers), a retail aftermarket (parts and accessory manufacturers selling to car owners through auto chain stores), and an independent repair market (parts suppliers selling to independent garages through jobbers).

The New Car Dealer

Of the three channels, car dealers have been least important to the aftermarket. By and large, the new car makers gave away the after-warranty car repair market to the other participants. There was too much money to be made by selling new cars to worry about the smaller profits in repairing old cars. There were also fewer hassles from angry consumers.

According to service industry research, car dealers had a 32% share of the service market in 1972; by 1985, their share had fallen to 19%. Also, the number of car dealers continues to decline. Between 1980 and 1986, the number of new car dealers dropped from 29,800 to 25,800, not all of whom offered service.

There are some signs of change. For one, the new car makers are starting to push extended service warranties that cover major parts of the car for up to 50,000 miles in an effort to bring the service customer back to the dealer. Also, companies such as Ford, Nissan, and Toyota have also opened small parts stores in some of their dealerships to gain DIY customers. Finally, the poor car sales of the early 1980s forced many dealers to reevaluate their service departments, and they found that service departments can become profit centers with a little effort.

However, the success of any of these signs has yet to be seen. Only import car dealers have managed to keep a substantial

THE TOTAL AUTOMOTIVE AFTERMARKET

Estimated 1985 Retail Sales (000)

Category	Retail Sales	Growth Rate
Service	35,942	6.5%
Parts	31,167	5.5%
Tires	9,445	1.8%
Accessories	6,907	4.8%
Motor Oil	3,238	2.4%
Chemicals	3,185	5.7%
Batteries	3,183	3.5%
Total	93,067	5.3%

Source: Lindsey-Kaufman Co., January, 1987

amount of service work (an estimated 40%) at the dealership, and this is more due to lack of strong import parts programs at independent repair shops than a love of dealers by car owners. But still, the complexity of new cars, an aging population, and a growing number of female car maintainers are all demographic trends that will help the dealerships in years ahead.

The Retail Market

Of the three channels of distribution, the retail market has changed least in its structure and practice. Chain stores typically began by selling accessories that car makers did not sell as OE equipment. As time went on and aftermarket companies expanded into parts, the retailers followed. But they began by buying direct from the factory and continue to buy direct. Their chief support, then and now, is the DIY customer.

Although it has not changed in structure or practices, the retail market has changed in management. The growth of retail sales and the success of retailers in the Seventies brought a whole new player into the aftermarket. First, there was the non-automotive retailer selling automotive products, and secondly, and more important, the conglomerate, a non-automotive retailer which bought auto stores.

The Conglomerates

The reasons for the entrance of the conglomerates were standard business factors. They saw a fragmented market. They saw a market with no single national chain and with lots of single store operations. In addition, the conglomerates were quick to point out that the aftermarket was behind the times managerially. But, and perhaps most important, they saw high profits in automotive sales compared to other forms of retailing.

Prime examples of conglomerate operations are Perry Drug, Pontiac, MI, creator of its own Auto Works stores, which bought the Fleenor's, Corvair, and

THE GROWTH OF THE AFTERMARKET

1920s:

Formation of the aftermarket:

- 1. Car dealers served by car makers.
- 2. Independent repair shops served by parts manufacturers through a network of jobbers (without WDs).
- 3. A volume retail market selling to DIYers. (Western Auto, 1909; R&S/Strauss, 1919; Penn-Jersey, 1920; Pep Boys, 1921.)
- 22 million cars on the road by 1929.

1929-45:

Depression and World War II.

1940-50s:

Post-War Boom:

- AWDA formed. Establishment of the three-step traditional distribution (WD to jobber to installer) channel.
- Forty million cars by 1950.

1950-60s:

America's Golden Age:

- Ninety million cars by 1970.
- "It's impossible to lose money selling auto parts."
- Number of gas stations reaches over 200,000, (359,000 repair outlets in all) buying from a network of 20,000 jobbers.
- Service, price, and availability the key factors.
- Rise of mass merchandisers. APAA formed.
- Supplier dominated distribution.
- DIY sales steadily increase. Manufacturers debate selling product to volume market.

1970s:

The decade of change:

- 120 million cars by 1980.
- Two oil shortages close 75-100,000 gas stations.
- Number of repair outlets of all kinds falls to 275,000.
- Rise of programmed distribution: the traditional market pursues the DIY market.
- Radical design changes in domestic cars.
- Imports seize a quarter of new car market.
- Parts proliferation a major problem.

1980s:

The fragmented aftermarket:

- A severe recession (1980-82) drastically cuts new car sales leading to a smaller repair market in mid-decade.
- Average age of cars rises to 7.6 years.
- Growth of the franchised repair specialist.
- Grocery/drug/hardware stores sell automotive products in large numbers.
- Conglomerates buy many volume retail chain stores.
- Mergers and acquisitions among WDs.
- Growth of WD buying groups. Some 18 programmed groups by mid-decade serving some 15,000-plus jobbers.
- Consumer-driven aftermarket.
- Retail/wholesale driven distribution.
- Performance/Light Truck markets become key sales growth categories.
- Age of the 100-store plus Megachain.
- Imports make up over 20% of cars on the road.

Lampert/Singer stores in rapid succession; Rite Aide Drugs, which bought the ADAP (American Discount Autoparts) auto stores in Avon, MA; and also Dart Drugs, a retailer that owns 66% of Trak Auto, Landover,

MD. Southland Corporation, Dallas, acquired the beginnings of its Chief Auto Stores in 1978 as companion stores to its 7-Eleven convenience stores.

In addition, there are such non-retailing conglomerates as

THE MARKETPLACE CHANGES

PURCHASES AT NON-TRADITIONAL OUTLETS

Judging from the responses of the DIYers on our study, it looks as though the non-traditional outlets (drug-stores, hardware stores, supermarkets) have not yet made serious inroads into the automotive products business, at least for DIYers.

PRODUCT	PERCENT THAT PURCHASED AT NON-TRADITIONAL OUTLET*
Wax/Polish	14%
Antifreeze	11
Appearance Chemicals	11
Oil	9
Auxiliary Lighting	6
Functional Fluids	4
Paint	4

*Note: Products with less than 4% market share not included.

Source: Automotive Marketing 1984 Vehicle Maintainer Study

Northern Pacific, which owns Schuck's, Belvedere, WA, and bought the Checker/Kragen auto stores from another conglomerate, Lucky Stores, in 1986 to make the combine one of the two biggest auto chains in the country (the other is Southland's Chief Auto Stores); and Wesray, which owns Western Auto, Kansas City.

Conglomerate owners have also entered the traditional market. Two of the three largest programmed distributors are owned by conglomerates: APS (American Parts Service), Houston, the operators of the Big A stores, is owned by Wickes; and Bumper to Bumper, Fort Worth, TX, is 80% owned by Alghanim International of Kuwait. Only the NAPA program, based in Atlanta, remains independent.

The influx of conglomerate operations brought about the age of

the megachain. By our count, there are eight auto chains operating, or programmed distributors owning more than 200 stores. Three, in fact, operate more than 400: The Checker/Schuck's/Kragen combine, Chief, and the Genuine Parts-owned NAPA stores. Auto Shack, Memphis, TN, (owned by Malone & Hyde) owns more than 300, Perry Drugs Auto Works, Western Auto-owned stores, Trak Auto, and AI International-owned Bumper to Bumper stores total more than 200 each. Of these megachains, only Genuine Parts is not part of a conglomerate.

Right behind these leaders are such chains as Pep Boys, Philadelphia, (probably the most profitable aftermarket retail organization) and Nationwide, Columbus, OH, both pioneers in the "automotive supermarket" concept of store design, with about 175 stores each. There is also Whitlock, White Plains, NY, which operates 145 stores under the names National, Giant, Strum, as well as Whitlock, and added Rose Auto Stores, Hialeah, FL, in 1986. Other 100-store plus chains are Grand Auto, Oakland, CA, and Advance Auto, Roanoke, VA, as well as the APS-owned Big A jobber stores.

The main impact of conglomerate ownership has been money. Because of their resources, they are able to open stores much more quickly than independent chains. Because of their resources, the number of DIY stores has grown so rapidly that many wonder if the aftermarket is becoming overstored. In addition, the newcomers brought management expertise and computerized systems to the aftermarket.

Other Retailers

Besides the conglomerates who bought auto stores, other retailers simply added automotive products to shelves during the mid-1970s, lured by high margins on automotive products and the growing interest in DIY. Oil, antifreeze, and chemicals became part of the product mix car-

THE AFTERMARKET PLAYERS

There are a number of different players in the aftermarket game. In numbers alone, service stations led the list of those retailers that sold automotive parts in 1983, when these figures—the most recent available—were compiled. DIY-oriented auto parts stores are sixth on the list.

Service stations	130,100
Auto repair shops	129,200
Grocery stores	85,100
Other outlets	49,400*
Jobbers	31,400
Auto parts stores	27,000
New car dealers	24,700
Hardware stores	18,200
Drug stores	15,000
Tire stores	12,200
Discount stores	7,000
Variety stores	5,200
Department stores	2,500

*Includes car washes, motorcycle and RV dealers, appliance stores, radio/TV stores, etc.
Source: APAA, The Foundation for Aftermarket Industry Research, The Retail Distribution of Automotive Products, 1984

ried by supermarkets, drug, and hardware stores. Some of these outlets even tried their hand at selling hard parts along with cold cuts, vitamins, and nails. In 1986, the Automotive Parts & Accessories Association (APAA) counted 91,400 grocery stores; 15,600 drug stores; 19,000 hardware stores; and 4,300 variety stores carrying some kind of automotive products.

Some 85% of supermarkets carry oil while 65% carry oil and other automotive supplies, according to *Progressive Grocer* magazine. Based on industry data, we estimate that automotive product sales at these outlets totaled about \$290 million with a gross profit of about \$76 million in 1985.

Some 30% of all drugstores now carry some automotive products. Today, the typical drug store auto department is between 20 and 100 square feet and has a average profit margin of between 30% and 39%, according to retail drug industry figures. Drug stores sell fast moving aftermar-

THE MARKETPLACE CHANGES

SUCCESS FACTORS FOR FULL LINE AUTOMOTIVE RETAILERS

While no one factor can guarantee retail success, certain combinations make some stores more successful than others. These factors will gain in importance as the stores of the future compete harder and harder for customers. Will you be ready?

Factors	Average Sales Per Square Foot
Products Carried	
Heavy parts	
yes	\$112
no	86
Engine parts	
yes	116
no	91
Safety/comfort/sound	
yes	120
no	99
Bay service	
With service	128
Without service	110
Location	
Downtown	91
Industrial area	128
Shopping mall	108
Suburban	140
Residential	125
Rural	102
National average	112
Hours Open Per Week (Summer)	
Less than 40	107
40-44	43
45-48	56
49-54	142
55-64	122
65 or more	98

Source: APAA

Factors	Average Sales Per Square Foot
Hours Open Per Week (Winter)	
Less than 40	95
40-44	58
45-48	43
49-54	149
55-64	122
65 or more	99
Method of Inventory Management	
Card system	98
Other manual system	109
Computer	154
Card and manual	87
Other manual and computer	78
No system	63
Card and computer	91
Type of Training Offered	
Formal training on selling skills	149
Formal training on mechanical skills	76
Supplier product training	141
Selling and mechanical	95
Selling and supplier	115
Mechanical and supplier	198
None of these	98
Other	100

ket items like oil. Chemicals are carried by nearly all drug stores stocking automotive; and slightly more than half sell small engine parts such as filters.

Hardware stores have the strongest foothold among non-traditional automotive products stores. For, unlike supermarkets and drug stores which rely on shopper traffic and impulse sales to move automotive items, hardware stores have been able to cash in on their track record of meeting the needs of determined household DIYers. Consequently, some automotive DIYers have turned to hardware outlets for their aftermarket needs. Key

products for hardware outlets include paint, wax/polish, and other appearance chemicals.

While such non-automotive retailers have found some success with automotive products in the store, none has gained any substantial market share of any category. Still, because so many stores stock fast movers like oil, antifreeze, filters, and chemicals and have driven down prices in these categories, auto chains began to expand parts offerings during the 1980s. Gradually, retail chains began to increase the parts they stocked until they were selling practically everything but heavy engine parts.

Chains that sold 3-4,000 SKUs in 1970 were typically stocking 8-10,000 SKUs by 1985.

The increase in SKUs brought retail stores closer to jobber stores (which usually stock 15-20,000 SKUs) and in recent years, a number of retail chains have begun to investigate the potential of selling wholesale to professional mechanics. This may become a major trend.

Selling Wholesale

For many years a topic of conversation in the automotive aftermarket has been how jobbers can successfully compete for retail business. Now, the tables are turned and we hear a new topic: the pursuit of wholesale business by retail chains.

Is retailer-wholesaling already a major trend? No, it is not. Moreover, some well-managed chains think this is a bad idea, in terms of dilution of effort. For example, when Grand Auto acquired Top Auto stores, a jobber/wholesaler in the Pacific Northwest, Grand converted Top Auto to its standard 100% retail format.

Grand Auto's Bob Seymour said, "You can only wear one hat. You can be a retailer or a wholesaler but not both. Our future is in retailing. We have one price for all customers. We couldn't offer dealers discounts from our prices and remain profitable. It costs a retailer 30-33% just to open the doors."

In addition, the majority of retail chains do not have active plans to increase their share of the installer market.

Today, the majority of retailers fall into the category of *accepting* wholesale business. Just about every chain store obtains some dealer business. The reasons are fairly clear: longer hours and very competitive prices.

In this category is Union, NJ based R&S/Strauss. Vice president Gary Hunt says that the chain is happy to serve professional installers, "But only on our terms." The chain attracts some dealer business on the basis of price and because it has longer

THE MARKETPLACE CHANGES

SHOULD YOU PURSUE DEALER SALES?

Why dealers like retail stores

- Convenient hours (evenings/weekends)
- Better prices
- Good parts coverage (All A's, some B numbers)



Steps to take to bring in more dealer sales

- Credit
- Keep resale numbers
- Well-trained counterpeople
- Deeper parts coverage (B/C numbers)
- Phone orders ready and waiting

What's needed to aggressively pursue dealer sales

- Dealer discounts
- Delivery
- Wholesale manager
- Outside salesman

hours than nearby jobbers. In addition, R&S/Strauss does not charge dealers sales tax if they have filed their resale numbers with the store.

Some chains go so far as exempting professional installers from sales taxes and, in many cases, offering them a discount from the retail prices.

Wholesale business is often associated with parts counters and countermen. Chief Auto has no parts counters in its revamped stores. However, it competes for dealer business on the basis of long hours (seven days a week, with many units open 24 hours per day), competitive prices, and dealer discounts.

In fact, one of the responsibilities of Chief District Managers and Territory Managers is to solicit dealer business.

Only a minority of automotive chains can be described as actively soliciting dealer business. However, there are some indications that this trend may accelerate over the next few years. Here are five reasons why:

- **The demand is there.** Professional installers are willing to save money on parts purchases by patronizing "cash and carry" sources.

- **The chains can compete for dealer business.** Retail chains attract installer business, whether trying to or not, because of more convenient hours of service and more competitive prices.

- **They stock a broad range of hard parts.** Chain stores intend to compete by offering more complete lines of parts for DIYers, and for installers.

- **Technology is changing.** The DIY trend may or may not have peaked. We all recall times in the past when experts said, "Amateurs will never be able to work on these new cars because they are too complex." DIYers have proved to be remarkably adaptable. However, some categories of parts are clearly harder to install than they used to be. It might be smart to aim for a share of the installer market.

- **Demographics are changing.** There is a shift to a population of car owners who are older and, presumably, more professional service-oriented. Also, there is a big increase in women car owners. Some of these segments may have to be reached via professional installers.

Pursuing Dealer Business

Although ADAP was founded as a 100% retail operation, ADAP recently opened an 18,000 square foot experimental Warehouse Store, intended to be both a warehouse (for the surrounding ADAP stores) and a retail outlet which will be open to all comers—including installers. As against approximately 10,000 SKUs in typical ADAP stores, the new (and experimental) Warehouse Store will have 15,000-16,000 SKUs. While the precise number remains to be decided, ADAP intends to carry an inventory sufficiently broad to be attractive to wholesale customers.

In fact, ADAP hopes to draw dealer business by offering attractive discounts to professionals. ADAP will omit sales taxes for dealers who file their resale numbers. In addition, it will offer professional discounts over its already attractive prices. The amount of the discounts will vary by product category.

ADAP stores have a "front of the store" salesman and a parts-smart "back of the store" salesman. The new warehouse store will be run by a manager who is knowledgeable about parts sales and wholesale operations. All parts will be displayed on the floor for easy self-service. However, wholesale customers will also have the assistance of in-store salesmen.

Several reasons led ADAP to the "Warehouse Store" concept:

- **The system-wide need to stock a broader range of hard parts.**
- **The desirability, therefore, of having a company feeder.**
- **The evident appeal of "Warehouse Clubs" to professionals.**
- **ADAP's proven ability to compete with jobbers for dealer business.**
- **The feeling that installer business may become more important in the future because of demographic factors.**

An important part of ADAP's

THE MARKETPLACE CHANGES

plan is to avoid inventory increases at its basic retail stores in favor of a movement to central feeder stores than can resupply surrounding ADAP stores and serve as cash-and-carry wholesalers to professional installers.

While debating the pros and cons of the installer market, it's important to remember the fact that DIYers account for only about one-third of the total parts market. To compete for the larger portion of the market, retailers have to get dealer business.

Wholesalers Retailing

At the same time, jobbers, supported by WDs, have made great efforts to get into retailing in a big way. In fact, over the years, the so-called traditional channel has changed more than either car dealers or retailers in the way it goes to market.

There was no national network of WDs until the late 1940s. But, with the formation of the Automotive Warehouse Distributors Association (AWDA), suppliers quickly saw the value of regional WDs functioning as factory agents and receiving a 28-33% commission.

Thus, by the Fifties, the route an automotive part followed from its manufacturer to the ultimate consumer, the car owner, was pretty simple. The supplier sold it to a WD who sold it to a jobber (so-called because he sold by the job), who sold it to a mechanic, who installed it for the consumer. In 1956, for example, 46% of all replacement parts were sold through wholesalers and another 33% sold through car dealers.

The traditional market grew through the establishment of a network of gas stations built by the major oil companies to sell their gas and oil. There were gluts in oil production (oil was imported originally because it was cheaper than American oil), and oil companies competed bitterly to gain share. In order to attract gas and oil customers, the oil companies promoted their dealers' service business. The growth of gas stations and cars on the road after World War II

COMPARATIVE ANALYSIS OF PRICING BY CHANNELS OF DISTRIBUTION (BASED ON SUPPLIER PRICE OF \$1.00)



Parts and Turns (estimated):

Parts	10,000	1,000	5,000	30,000	30,000
Turns	5x	8x	8x	2x	2x

Observations

- Traditional jobber is 22% higher than retail chain on popular DIY products. Explains market share erosion.
- Installer chain has a 42% price advantage over WD/jobber/installer channel on popular service jobs.
- Unpopular jobs are less sensitive to price competition from for installer chains.

Conclusions For Programmed Distribution

- Aggressive pricing on fast moving items.
- Move into popular service channel.
- Increase margins wherever possible on unpopular (less price sensitive) products.
- Market share shifts between mass merchandisers and retail stores due to inventory breadth and not price.

Source: AI International

was a boon to the wholesale market, which serviced the stations with everything except TBA (tire, battery and accessory) parts. By the Seventies there were well over 200,000 gas stations buying products through traditional channels.

The 23,000 or so jobber stores were and still are the keystone of the traditional market. The jobber's primary customer is the gas

station or garage; he also sells to car dealers who need replacement parts quicker than they can get them from the car maker. There were always a few DIYers who also bought from jobbers, but jobbers made little effort to sell the DIYer. In fact, many discouraged DIYers in order to protect the professional mechanic.

The jobber looked upon DIY retail stores with disdain: "The

THE MARKETPLACE CHANGES

snake oil and fuzzy dice people" was one of the kinder descriptions. Although the DIY stores grew in the 1950s and 1960s, their influence and market share was miniscule (except in chemicals and accessories) until the 1970s. Parts were strictly a traditional market staple. Indeed, many national suppliers would not sell to retailers in order to protect their WD customers. What parts were sold in DIY stores tended to be off-brand or white box parts.

So until the Seventies, DIY sales were only a small concern to the traditional market. Despite steady DIY growth in the Sixties, the traditional market on the whole continued to maintain its business which was essentially wholesale, and pretty much ignored the DIYer. And, because of steady growth in business, it did not have to change. The market was controlled and stable.

It took the two gas shortages of the Seventies to end the stability. The two shortages closed over 80,000 gas stations and repair shops and forced many car owners to change their car repair habits. A good number became DIYers. These new DIYers would have been natural customers for jobbers. Many of them needed advice and succor. However, most jobbers continued to discourage DIY business. A major WD described the process succinctly, "We sort of let this happen. We sat around with our heads in the sand and allowed retailers to have the retail market. It's just like the car companies were to blame for letting us have the repair market years ago. If we'd acted 10 years ago with the programs we have now in merchandising and advertising, the retail chains would never have gotten a foot in the door. Now we have to go back and battle them for our share."

Programmed Distribution

The traditional market responded with the development of programmed distribution groups. These groups largely appeared

during the 1970s, although the two largest, NAPA and APS, date from 1925 and 1952 respectively, and offer a jobber a program of merchandising, marketing, and advertising assistance. More importantly, they enable jobbers to buy as members of a buying group rather than at an established list price. By 1986, about half of all WDs and about two-thirds of all jobbers were affiliated with some kind of programmed distribution group. And most large programmed distribution groups of jobbers average 30% or more of their sales to DIYers.

Programmed distribution simply means that a jobber does not only buy goods from a WD affiliated with one of the groups, he buys the complete program. A programmed WD takes the product all the way through the channel from acquisition to merchandising. To do this, the WD must be more than a sales agent for a supplier. The WD has been forced to reexamine practices that have been established for years.

For example, the retail market buys direct from manufacturers. In effect, it eliminates one step in the distribution system—the WD level. This means that typically a \$1.00 part will sell in a chain store for \$1.62. The same part will cost the jobber \$1.29 from the WD and he'll sell it to the installer for \$1.84, who in turn will sell it to the consumer for \$2.83. Jobbers traditionally hate to discount so they will sell the part to a DIYer for somewhere between \$1.84 and \$2.83. Thus, a weakness of the traditional channel is its inherent inability to effectively compete on a price basis with the retail store.

While this price difference has always existed, until recently it wasn't as important since jobbers did not worry about DIY customers. The chief economic result of the Seventies was runaway, double-digit inflation, a stagnant economy, and high interest rates. Between 1967 and 1980, the cost of living index more than tripled.

Gasoline that cost about 30¢ a gallon in the Sixties sold for over a dollar by the Eighties. Following the second gas crisis in 1979, the country went into a recession that many compared to the depression of the 1930s. All but the most necessary repairs were postponed if not eliminated.

The net result was an extremely price-conscious consumer who took one look at the prices in jobber stores and stayed away in droves. Also, as a result of new players in the market, and new methods of marketing the old services, the consumer can now pick and choose to an extent that was never possible 30 years ago. The aftermarket, like other markets, is now consumer-driven.

Better pricing was needed to win this customer for the jobber. The programmed distributors are increasing the use of private labels. The buying power of the larger groups allows them to demand a short line private label from their suppliers. Private labels give the groups an opportunity to sell the consumer on the program, rather than the product. The national program creates a chance for the WD to buy quality products from a supplier at a lower price than the national brands and pass the savings to jobbers with no loss in quality.

In addition, group power has led to better pricing in jobber stores, and better advertising and marketing programs. Indeed, many new stores opened by some of the major programmed distributors look more like a retail store than a traditional jobbing store with lots of glass, bright lighting and signage, big displays, long aisles and endcaps, and clean-cut personnel in these stores.

By and large, the program groups feel they're over the hump on retailing. Jobbers who want to aggressively retail do so. By copying merchandising techniques from the volume retailers and through group purchasing power they feel they've reached a satisfactory limit of about 30% DIY sales. In fact, in recent

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years, it's often hard to tell the difference between a retailer and a programmed jobber.

The WD's Situation

Faced with a smaller controlled service market and a still strong DIY market, more aggressive WDs have been going after new business. Some of their new customers are DIY retailers, mass merchandisers, tire stores, and service specialists. Beyond serving non-jobbers, some WDs have opened jobber stores themselves, a trend that will probably increase in the Eighties.

WDs are also reevaluating their position vis a vis their suppliers. Some WDs speak of a "mistrust of the supplier." In the WD's view, suppliers were seduced away from the market that had faithfully served them for many years by the retail market. Worse yet, the WDs suspect the volume retailers are able to buy at better prices because of their size. WDs feel that because competition was created by the suppliers' greed, they've been forced to do things they hadn't contracted for, which eroded their margins. If suppliers will sell to anyone, WDs say, that demands a revamping of the pricing structures. At the very least, they want to buy fast movers at the same prices that retailers do and "unbundle" pricing. The traditional market feels it is able to demand better pricing mainly because of the growth of programmed distribution. They feel that because the programmed groups have become so large, the market has become customer-driven at this level, rather than supplier-driven. For example, one observer said that the number of purchasing points today is only about 60% of what it was 10 years ago.

Observers also feel the independent WD is in deep trouble. The industry is going to go more and more to controlled distribution, and WDs are looking to groups for salvation. Independents say their business is deteriorating and they fault the groups. They say they're almost

forced to join a group. They say vendors take advantage of the independent. Programmers smile and say when suppliers talk to groups, they know they're talking to a lot of WDs with buying power. If they want distribution in an area suppliers have to deal with the group.

Service Market Changes

At the same time the general feeling is that DIY has peaked. Almost unanimously, traditional people think an aging population and the complexity of new cars will drive consumers back to the professional installers. Accordingly, their thinking runs toward finding a way for programs to aid the traditional market's traditional customer—the professional installer.

However, the traditional market has also seen changes in the service market. Along with DIY competitors, an area the traditional market had more or less conceded already, the Seventies saw direct service and installation competitors enter the market. First, there was the move by tire store chains into service; and second, the rise of the service specialist.

Tire store chains began to em-

phasize service simply because improved radial tires meant fewer tire sales. Tire sales fell off from about 140 million per year in the Seventies to about 120 million in the Eighties. In order to survive, national tire chains like Firestone and Goodyear, which already had service bays, expanded their service offerings and began to advertise such things as tune-ups, brake jobs, and shock/strut replacements. Those that did not move into service saw trouble ahead. Between 1980 and 1983, for instance, some 2,600 went out of business.

Some found this move was to their advantage. For example, AAAD (Association of Automotive Aftermarket Distributors, whose programmed jobber stores are called Parts Plus), in Memphis, worked out a deal to serve all Goodyear tire stores direct from the Memphis warehouse, and local Parts Plus jobbers fill in with hotshot service. That deal has been the envy of other programmed groups.

A second response was the growth of specialized outlets for transmissions, mufflers, lubrication, and tune-ups and other quick services. By 1986, there were 16,900 such outlets in business. The overall picture for specialized dealers has been excellent, and it's another area worth looking at closely.

Specialty Service

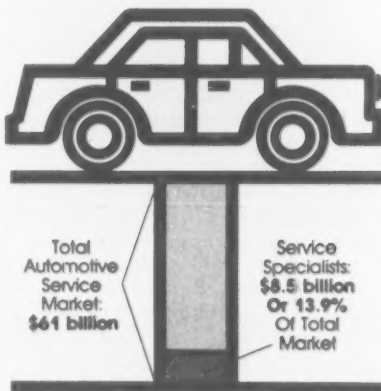
Service specialists of various types—lubrication, tune-ups, mufflers/brakes, transmission rebuilding, etc.—are having the same kind of impact on the automotive service business that fast food franchises have had on the restaurant business.

But, like the fast food industry, specialty service chains will not take over the entire automotive service world. There will continue to be important places for independent general repair shops, car dealers, gasoline service stations, service centers operated by mass merchandisers, auto supply chains, and tire retailers.

The specialist chains now account for only a small portion of

SERVICE SPECIALISTS: HOW BIG ARE THEY?

As of 1984, service specialists of various types accounted for retail sales of \$8.5 billion out of a total automotive service market estimated at \$61 billion.



Source: Service estimates from Frost & Sullivan

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SPECIALTY REPAIR SHOPS MARKET SHARE

As our chart shows, the specialty repair shops have gained a substantial market share in under the car work like exhaust and suspension. Today, tune-up shops and fast lubes are the fastest growing franchises and their shares will no doubt increase.

Product	Estimated Share of Market
Muffler	39%
Catalytic Converter	19
MacPherson Struts	11
Conventional Shocks	7
Brake Shoes/Linings	7
Spark Plugs	3
Air Filters	3
Oil Filters	3

Source: Andrew Hill, General Battery

the total automotive services market. In 1984, service specialists accounted for estimated retail sales of \$8.5 billion out of an automotive service market of about \$61 billion, for an estimated 14% of the market. Nevertheless, specialty chains are significant because they are growing much faster than the aftermarket as a whole, obtaining higher turnover and higher profits than other participants.

In oil changes, tune-ups, mufflers and brakes, the success of specialists is, in part, at the expense of parts retailers. Car owners who patronize quick lubes represent lost sales of take-out oil. Some of them used to be DIYers.

Specialization gains efficiency and proficiency by concentrating on a specific service. From the specialist's point of view, the narrower the focus the better. On the other hand, changes in markets can push specialists to widen their focus.

For example, the lubrication business is populated not only by specialists such as Jiffy Lube and Minit Lube with drive-through facilities dedicated to quick lubrication services, but by tune-up specialists. Tune-up specialists entered the lubrication field re-

luctantly; they prefer to concentrate on tune-ups and engine diagnostics. However, many car owners prefer to get an oil change at the same time as a tune-up. In addition, lubrication can be a great draw and traffic builder for many types of service. Therefore, today, most tune-up shops compete for oil change/lubrication business.

There is also a link between brake services and exhaust system services. Muffler shops are encountering slower growth in their basic business. As a result, they are moving into brake service, another under car service in which they feel comfortable. In effect, virtually all muffler specialists are (or are becoming) muffler/brake specialists.

Oil Change And Lubrication

Opinions differ about the penetration of lube specialists into the multi-billion dollar market for passenger car and truck motor oil. But O.D. Felty, vice president of Valvoline branded sales, estimated 1984 unit sales at close to 600 million gallons and retail sales at slightly over \$2.9 billion. Take-out (DIY) sales represented an estimated 57% of gallonage and 49% of retail sales dollars. Motor oil sold on an installed basis accounted for 43% of gallonage and 51% of sales dollars.

Everyone agrees that motor oil is now a slow growth business—except for quick lubes. Frank Fadil, of the Charles H. Kline Co., Fairfield, NJ, said, "Quick lube centers will experience strong growth in 1984-89 at the expense of mass merchandisers and other service companies. Quick lube sales are expected to increase from 20 million gallons in 1984 to 45 million gallons in 1989. As volume more than doubles, quick lubes will capture a 6% market share. In terms of installed purchases, quick lube centers will double their market share from 8% in 1984 to 16% in 1989."

Reasons For Growth

Motor oil business observers cite three reasons for this growth:

- **Decline in full service gas**

stations.

- **Changes in demographics, specifically, slower growth in DIY-oriented youths and older blue-collar males, faster growth in cars owned by women, and service-oriented "yuppies."**
- **The attraction of convenience and fast service.**

There are more than 2,000 quick lube centers in operation now. By 1990, there will be at least 3,200. Jiffy Lube alone plans to have 1,250 operational then.

Some operators attempted to establish themselves in the quick lube business by taking over and remodeling abandoned gas stations. The most successful operators, such as Jiffy Lube (Baltimore), Minit Lube (Salt Lake City), and Grease Monkey (Denver) achieve high volume by building specially designed and equipped drive-through facilities. Their through-put can more than double that of a shop which has to back cars out of its garage.

Quick Lube Competition

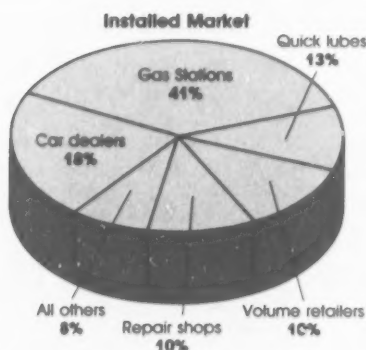
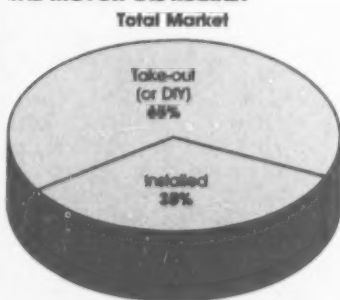
Finding suitable, high traffic locations and building drive-through facilities require substantial amounts of capital. Jiffy Lube intends to grow from 350 outlets in 1986 to 1,250 outlets by 1990 with Pennzoil as a partner in the construction of 325 centers to be opened by 1988. Not to be outdone by Pennzoil, Quaker State bought outright control of Minit Lube. Minit Lube is the number two quick lube chain with 110 outlets at present. An aggressive expansion plan financed by Quaker State will double the number of Minit Lube outlets.

Following the 1986 moves by Pennzoil and Quaker State, other oil companies are jumping in the business rapidly. Valvoline bought Rapid Oil Change, a Minneapolis operation with 45 company-owned stores, and Kendall joined forces with Avis Rent-A-Car to plan 1,700 quick lube stores.

The impact of the oil companies can bring about even faster

THE MARKETPLACE CHANGES

THE MOTOR OIL MARKET



Source: Automotive Marketing estimates from various sources.

growth to a booming industry. One effect may be price wars. The average quick lube, oil change price is about \$20. But one long term owner noted that companies could profitably lowball the service for \$13-\$14 and "bring DIYers out of the woodwork." The long term effect on DIY oil sales could adversely affect one of the leading traffic builders in retail stores.

Tune-up Specialists

The Champion Spark Plug Company estimates that about 67% of the car and light truck fleet receives a tune-up each year, or about 102.5 million tune-ups in 1985. Champion's surveys indicate 34% are DIY at an average of \$33.90 on parts per tune-up. So the DIY business retail value was nearly \$1.2 billion in 1985.

Champion also estimates the average price of professional tune-ups (parts plus labor) at \$73.90, an average of \$84.70 for car dealers, and \$74.60 for garages. There was a professional tune-up market of about \$5 billion in 1985.

We estimate that tune-up centers receive an average of \$49 per tune-up. Champion said that tune-up centers account for 5% of all tune-ups, or more than 5 million tune-ups in 1985.

So our calculations suggest that tune-up centers sold over \$250 million in 1985 or more than 4% of total tune-up sales dollars (DIY as well as professional) and 5% of the professional market. However, the number of

tune-up shops is increasing rapidly and so is the revenue per shop.

Tune-up specialists such as Bill Childs, founder and head of Precision Tune, have their eyes on a 40-50% market share. Childs sees this as an obtainable goal for tune-up specialists in the 1990s.

Why Tune-up Specialists Grow

According to Champion's surveys, car owners patronize tune-up specialists for convenience: the ability to get a professional job without waiting a long time.

The tune-up specialists attribute their growth to trained and competent personnel. At Sparks Tune-Up Centers (owned by Maaco), president Dan Rhode observes, "There is a hole in the market caused by the closing of more than 100,000 gas stations since 1974. Also, the number of car dealers has declined. There are fewer places a car owner can find to obtain tune-ups. In addition, cars have become more complex. This has resulted in a smaller role for DIYers—and for the mass merchandisers who are not committed to the service business."

Andy Granatelli, the outspoken head of Tune-Up Masters (recently purchased by Cardis, a California conglomerate and WD), sees the tune-up trend as part of a larger trend one. "There is a need for specialists in all automotive services, not just tune-ups but brake, suspension and you name it. The day of the Mom

and Pop shop is over. In the future, only specialists will work on cars. In fact, there is a trend to specialization even within tune-up shops. Today we have specialists who rebuild carburetors, fuel injection specialists and specialists on computer controls."

Another View

Bill Childs, of Precision Tune, probably the largest in the category with 314 shops in operation and 70 scheduled to open, says, "The changes in automotive technology have been so rapid in the last few years that it is terribly hard for non-specialists to keep up. Frankly, it is hard enough for us to keep up and to keep all of our franchisees up to date. I can imagine how difficult it must be for an operator of a general garage to understand the latest fuel systems."

According to Childs, tune-ups "used to be replacement of plugs, points, condensers, and, if necessary, rotors, distributor caps and plug wires. Newer cars have fewer ignition parts to replace, but more need for proper diagnosis. We may find that the ignition system is OK but there are problems with the valves. We may have to repair the carburetor or fuel injection system, or we may have to replace the oxygen or temperature sensor. In addition, we do some straight diagnostic services. DIYers pay our shops \$15 to \$20 to check out their vehicles."

Muffler & Brake Specialists

Today few muffler specialists do not offer, or plan to offer, brake services.

A latecomer to this movement is Meineke Discount Muffler Shops, Inc. Meineke vice president of dealer services Gene Zhiass says, "Actually, a number of our franchisees have wanted to offer brake services for some time. We tested our ability to offer brake services in Chicago and announced the decision to offer these services in October 1985. Since then, 250 of 565 Meineke shops have gotten operational in brake services."

THE MARKETPLACE CHANGES

Meineke's average brake ticket is \$170, a price Zhiss believes to be lower than other shops and garages.

Market Size

Muffler shops are a good example of the power of specialist retailers in gaining market share. In 1970, gas stations were the leading muffler installer. Muffler shops were tied for third place with car dealers. By 1980 muffler shops were dramatically in the lead with a 33% market share, and gas stations had lost half of their market share. Car dealers had also lost half their share.

Currently, retail sales of exhaust system parts (mufflers, pipes, clamps) in 1985 are estimated at about \$2.1 billion. Of this amount, the market breaks down like this:

• Muffler shops	35%
• DIY sales	25%
• Garages & service stations	24%
• Chain stores	10%
• Car dealers	6%

Midas International, in business 30 years, has 1,441 franchised outlets. The cash investment in a Midas store currently is \$160,000. Meineke, with 565 franchises in place (and another 105 on the boards), requires a \$85,000 cash investment. Tenneco Automotive owns two muffler franchises: Car-X Service Systems, Inc. (100 outlets, investment of \$120,000) and Speedy Muffler King (200 company-owned outlets in U.S., 150 in Canada, 140 in Europe; investment of \$130,000-\$150,000).

How They Did It

Muffler specialists, franchised and otherwise, have gained market share by promoting convenience, attractive prices, warranties, and the ability to serve a wide variety of makes. They train extensively and use specialized equipment such as pipe benders. The best operators cultivate and maintain a professional image: attention-getting signage, clean service bays, comfortable waiting rooms; backed by heavy local and national advertising.

Muffler specialists are tough competition. The president of one chain of 28 tire/service centers says, "We are working like the devil to increase our service business—but we stay away from exhaust system service. The specialists are hard to beat."

They are tough competitors for each other, too. This makes them confident that they can succeed in other under car services. At Meineke, for example, president Ron Smythe says, "We are used to stiff competition. It hasn't prevented us from increasing our sales." This, he points out, is in a business which is supposed to be slowing down because of longer lasting OE mufflers. Smythe considers the brake business a growth market.

Brake Business

Meineke sees brake service as an important add-on to its basic business. "Among the Meineke shops in the brake service field, brakes represents an increment of 10% to 20% over their muffler business. As a company-wide goal, we are aiming at a mix of 60% muffler/40% brakes and other under car services," Zhiss said.

The brake service field is seen as less seasonal than the muffler business. Zhiss says, "There is a pronounced summer peak with mufflers. We see brake service as more of an all-year business which fills gaps for our franchises. Not all our franchises have gaps. We have many locations which are so busy with muffler work that they gross \$800,000 per year. However, in hotter, drier parts of the country where mufflers last longer, we think our franchises will benefit by offering brake services."

Indeed, specialized retailers have continued to take an steadily increasing share of market in all their respective specialties. In addition to taking a wider share of market, specialty repair shops deprive the traditional channel of one more customer.

While some specialty shops do some buying through local WDs and jobbers, the majority of their

stock is supplied from national warehouses.

The Future

Survival of the fittest is a good term for the future of the aftermarket. Right now, the aftermarket is mature. Traditionally, the market grew simply because the number of cars on the road grew. More cars needed more repairs which meant more sales. While the number of cars is still growing, it's growing at a much slower rate than previously.

In addition, the age of cars continues to increase. In 1986, some 27% of the cars on the road were more than ten years old. By comparison, this figure was only 11.6% in 1970. This should be good for DIY sales since older cars are usually repaired mainly by DIYers.

A Motor and Equipment Manufacturers Association (MEMA) study of cars in operation found that the core aftermarket (cars 3-11 years old) actually shrank from 70.2 million in 1984 to 67.6 million in 1985, and 67.3 million in 1986. The reason for fewer cars in the core market is simple. Cars that entered the core market in 1985 were sold new in 1982, a terrible year for new car sales with just under eight million sold. Those leaving the core market were sold new in 1973, which was an 11.4 million car sales year. Allowing for scrappage rates, the net was a 2.6 million decrease.

However, in 1987 and 1988, the new car sales increases in 1983 and 1984 will crank up the core market again. The number of cars in the 3-11 year old category should increase by 1.6 million cars, a figure still below that of 1984 however. There is also another hitch for the aftermarket.

The MEMA study also points up the increased importance of imported cars. The percentage of imports in the core market has increased from 16% in 1980 to 23% in 1986. While the market will increase by 1.6 million cars, the number of domestic cars will actually decrease by 600,000.

The growth is all in imported cars, which will increase by 2.2 million cars.

This means two problems for the aftermarket. First, providing a strong program in parts for the growing number of imported cars. The strength of import car dealers for import cars repairs shows this remains a serious problem for the aftermarket. Domestic suppliers have still failed to provide complete lines of parts for imports. This means retailers and jobbers both have to find new suppliers for many parts. And, import car makers are trying to control the distribution of these parts through dealership programs and close ties with their OE suppliers.

What will happen in this area is anyone's guess.

Secondly, as the huge numbers of older cars are scrapped and replaced by newer cars, many DIYers who previously owned a simpler car will be faced by the more complex automotive technology that entered the market in the 1970s. There are many who say that these cars are simply too hard for DIYers to deal with because of electronic ignitions, front wheel drive, and other technologies. To deal with these complexities, the aftermarket is going to have to show DIYers they can continue to repair their own car.

For the last 20 years or so, the aftermarket has seen a decline in the traditional market and the rise of DIY. Right now, those companies that specialize in a well-defined and narrow services or products, or who meet DIY needs, are the companies that are growing the fastest. What happens in the future, however, depends to a great extent on the growth or decline of DIY. If DIY declines, the future could be split between specialty outlets and a resurgent traditional market. If DIY continues to grow, programmed distribution jobbers and the mass merchandisers—automotive chain stores and non-automotive retailers—will be the ones to watch. ■

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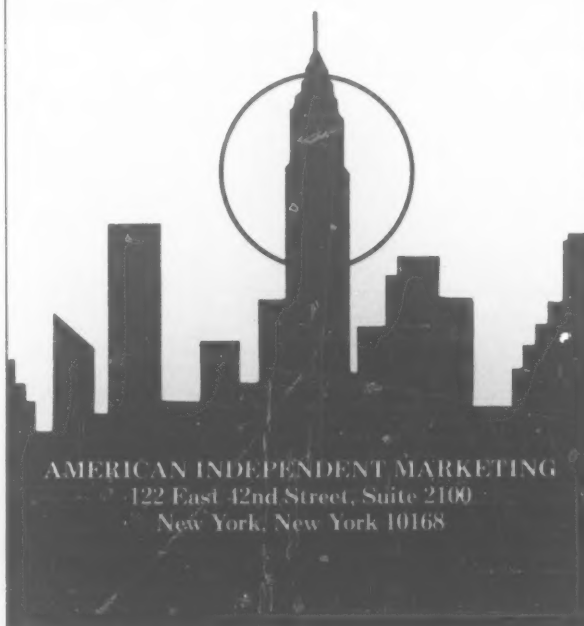
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THE AFTERMARKET INDEX

THE 1986 AUTOMOTIVE MARKETING MARKETBASKET

To determine the price movement, *Automotive Marketing* created a "marketbasket" of the best prices available for nine popular aftermarket products. We determine the best available price of each item in each marketing area each month to come up with an average marketbasket index. The products include a non-resistor spark plug; an oil filter; a can of 10W30 motor oil; a can of paste wax; an AM/FM/Cassette radio; a gas-charged shock absorber; a gallon of antifreeze; a pair of windshield wiper refills; and a 40-month-warranty battery. These products are usually on sale somewhere within each marketing area, which we define by their unique geographic, meteorological, and consumer characteristics.

1986 NATIONAL AVERAGE MARKETBASKET PRICES

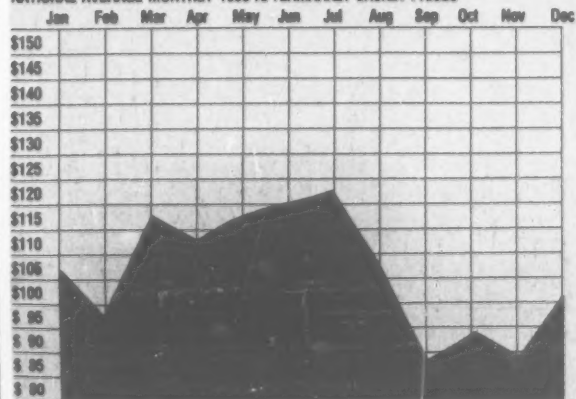
A non-resistor spark plug:	\$.73	A gas-charged shock:	\$ 13.63
An oil filter:	2.04	One gallon of antifreeze:	3.42
A can of 10W30 oil:	.77	One pair of wiper refills:	2.24
A can of paste wax:	3.66	A 40-month battery:	31.20
An AM/FM/Cassette:	48.91	Total:	\$106.60

AVERAGE 1986 AM MARKETBASKET PRICES BY MARKETING AREA



1. Greenbelt East:	\$95.58	3. Smokestack East:	\$106.28
2. Megapolis East:	102.28	4. Old South:	108.18
		5. Caribbean South:	113.72
		6. Smokestack Central:	108.44
		7. Grainbelt Central:	105.58
		8. Spanish West:	101.74
		9. Desert West:	109.50
		10. Greenbelt West:	101.69

NATIONAL AVERAGE MONTHLY 1986 AFTERMARKET BASKET PRICES



AFTERMARKET BUSINESS INDICATORS

	Unit/Base	1985	1986*	1987*	% Change 85-86	% Change 86-87
Personal Income	billions	\$3,314.5	\$3,487.6	\$3,669.8	5.2	5.2
Personal Consumption Expenditures	billions	\$2,600.5	\$2,759.5	\$2,919.9	6.1	5.8
Consumer Price Index	—	1.9	3.5	3.6	—	—

* 1986, 1987 are estimated figures.

AMERICAN-BUILT CARS SOLD IN 1986

American-made car sales for December 1986 finished the year up 16% higher than December 1985, for a year that showed overall growth. Ford, Chrysler, and American Honda were December's big winners. For the year, however, Ford sales dropped slightly, as did General Motors. And American Motors continued to bleed. But Japanese nameplate cars did well in 1986.

Maker	1985	1986	% Change
American Honda	235,247	145,976	61.2%
American Motors	75,853	123,449	-41.0
Chrysler	1,173,463	1,139,936	2.9
Ford	2,066,507	2,070,392	-2.9
General Motors	4,532,798	4,607,458	-1.6
Nissan	52,602	39,794	32.2
Volkswagen of America	73,912	77,535	-4.7
Total U.S. Industry	8,214,663	8,204,540	0.1

Sources: E.F. Hutton & Co., Motor Vehicle Manufacturers Association

1986 AFTERMARKET STOCK PRICES

The figures below are the high and low prices offered and paid for various retail chain, manufacturer, and distributor common stocks in different stock exchanges for the 52 week period prior to December 31.

	Exchange	52-week High	52-week Low	12/31 Quote	P-E
Armor All	OTC	12 1/2	10 1/4	10 5/8	—
Cardis Corp.	AMEX	10	5 7/8	7 3/4	7
Champ Parts	OTC	11	3 1/2	7 5/8	28
Champ Spk Plg	NYSE	11 7/8	8 5/8	10 7/8	—
Crown Auto	OTC	4 1/4	3 1/4	3	—
Dana Corp.	NYSE	36 1/2	25 1/2	34 7/8	16
Durakon	OTC	18	6 1/2	11 1/2	15
Echlin	NYSE	20 5/8	14	19 3/4	17
Genuine Parts	NYSE	48 3/8	35 3/8	43 5/8	19
Lucky Stores	NYSE	37 7/8	23 1/4	25 3/4	21
Prior Hannifin	NYSE	30 1/2	20 1/4	26	13
Pernzoll	NYSE	91	48 1/8	66 3/4	65
Pop Boys	NYSE	48 1/4	25 1/8	42 1/8	28
Perry Drugs	NYSE	20 7/8	12	12	20
Puroator	NYSE	28 1/4	15	28 5/8	—
Quaker State	NYSE	30	22 1/2	25	12
Republic Auto	OTC	10 1/4	6 5/8	8 1/4	—
Rite Aid	NYSE	35 1/2	24 1/4	29 5/8	17
Sealed Power	NYSE	31 1/4	23 1/8	26 5/8	12
Southland	NYSE	60 1/2	40 3/8	47 1/4	11
Stan Mir Prod	NYSE	20 1/8	11 7/8	19 1/2	18
Supr Ind	AMEX	16 3/8	9	12 3/4	9
TBC Corp.	OTC	14	8 3/4	12	21
Tenneco	NYSE	43 1/8	34 1/2	38	18
Trak Auto	OTC	18 1/4	11	14	350
Trid Systems	OTC	13 1/8	8 1/2	9 3/8	23

A NATION DIVIDES: MARKET REGIONS

Traditional boundaries do not necessarily define market areas. Here is a new way to look at regional markets.

The traditional nine marketing areas that are used by the U.S. Government do not accurately portray the values that make rational areas. Companies that base decisions on these trading areas fail to address how the country really works.

This concept was first advanced by Joel Garreau, in his book *The Nine Nations of North America*, (Boston, 1981, Houghton Mifflin Co.). Recently, it was expanded on by Management Horizons, a consultant firm, which added two to Garreau's areas.

Basically, both agree that traditional boundaries were settled by political bodies, for political purposes, and are not necessarily boundaries of areas that encompass like people.

Therefore, retailers can use accurate maps of real market areas and these should reflect these actual consumer conditions and motivations, and not simply political boundaries.

Using data developed by Garreau, Management Horizons, and the U.S. Government, and adding observations of our own, the *Automotive Marketing* staff has drawn up a new set of marketing areas, by county lines, that more accurately defines the actual market. These are:

Greenbelt East

This is the traditional New England area, tied to the soil, with a strong sense of personal independence, and featuring strong regional loyalties. It's a relatively stable area, with a total population of some 12.6 million, many of whom live in the Boston area.

People are DIYers: the 1987

Automotive Marketing Consumer Automotive Repair Study (CARS) indicates that 4.6% of U.S. DIYers live here, while only 4.3% of the total U.S. population lives in the area. As well, 5.1% of aftermarket products and service sales are made here.

Even with this there are some DIYer sales problems. People don't work outside much in the area's very cold winters. Moreover, they put fewer miles on their cars than people in the other areas. Garreau noted the inhabitants' "reluctance to travel at all. One man from Dixie who was working for a major Boston corporation marveled at how his colleagues considered Worcester, forty miles to the west, 'the frontier.'"

New Englanders also drive different types of personal vehicles than do inhabitants of other areas. This is also an area exceptionally strong in foreign car registrations. And, it's an area in which light trucks are very common. Average registration of light trucks in the area runs around 20%, while 24.4% of DIYers here told the 1987 CARS that they were responsible for maintaining a light truck. As is common in cold weather states, four-wheel-drive light trucks are more popular than they are in hot weather states. R.L. Polk reports that 29.1% of the light trucks in the area are four-wheel-drive trucks, a figure far above the national average.

Megapolis East

What we call "Megapolis East" is a string of largely urban and suburban ("bedroom") counties

running from Hartford, CT, to Alexandria, VA. These folks work in some industry, but many more are in service industries and government—white collar jobs—and move about the country more than people elsewhere. With the decline in heavy basic industry, this has become a very stable area in terms of actual population numbers (41.2 million people in 1970 vs. 41.4 million in 1980, for a rise of 0.4%). And National Planning Association figures indicate the New York/New Jersey SMSA will decline 0.03% in population between 1980 and 2000, while Jersey City should have a 0.00% population change in the same period.

What growth there is is largely among minority group populations—which are often not actually minorities in the area. It is a rare area in Megapolis East that does not have its political leaders from groups which would be considered minorities in an area like Grainbelt Central. For example, Washington's blacks make up 26% of its total population; Baltimore's, 24.9%; Philadelphia's, 19.1%; and New York, 25.1%. Inner city concentrations are even higher: CORE, for example, reports 38% of the population in the Philadelphia area living within city limits is black.

New York is still the major city in this area—the second-best selling newspaper in most of the area is the *New York Times*. Many megapolis inhabitants, especially in more urban areas or in suburban townhouses, don't have the space to work on their own cars or store car parts; hence service is important in this area.

Also, public transportation is strong in the area, and annual car mileage is often less than in other parts of the country. In the District of Columbia, for example, 38% of the population uses public transportation to get to work (compared to a national average of 6.4%), 11.5% walk (compared to a national 5.6%), and only 31.8% drive alone to work (compared to 64.4% nationally).

And, in fact, 38.3% of the

A NATION DIVIDES: MARKET REGIONS

households in the District don't even have access to a motor vehicle, compared to 14.7% nationally. Those who do drive, prefer smaller cars (because of parking and fuel economy problems) with front-wheel drive (because of icy road problems), according to a June 1986 article in *Advertising Age*. Cars are often Volkswagens or similar imported type small, front-wheel drive cars.

Even with these figures that may seem discouraging, chains in the Megapolis can do well. Don Schlenger, president of R&S/Strauss Associates, Union, NJ, told *Automotive Marketing* that his stores in the cities are "amazingly profitable. There are strong DIYers in the city. I've seen people pulling the block out of a car right on the street." Statistics like one indicating that 28% of the people in Baltimore consider automotive work an active hobby bear this thought out.

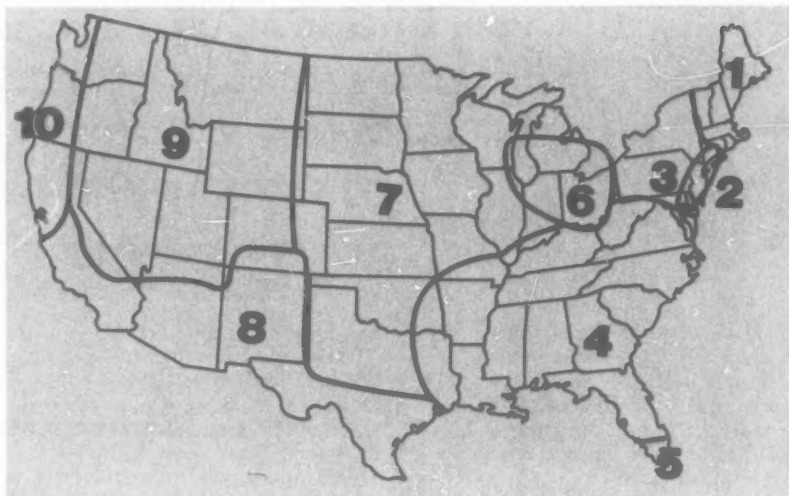
The limited number of gas stations in most of the cities means that categories like motor oil and antifreeze do especially well here. Moreover, Schlenger said, "You have a situation where every supermarket doesn't carry automotive. The supermarkets have less space."

The area's weather does present a unique problem, Schlenger said. "From April to December there's no difference; you sell the same merchandise as the rest of the country. But then there's January, February, and part of March. You don't get a true winter here in the Northeast. It's neither fish nor fowl. So you move only a fair amount of winter merchandise in those months and you don't sell the year-round merchandise either."

According to CARS data, 9.0% of the U.S. population who live here does their own automotive repairs and maintenance. This compares favorably to the fact that 7.0% of the U.S. population who live here are responsible for maintaining some sort of vehicle.

Smokestack East

The eastern industrialized



This is how *Automotive Marketing* divides the nation into marketing regions. 1. Greenbelt East, 2. Megapolis East, 3. Smokestack East, 4. Old South, 5. Caribbean South, 6. Smokestack Central, 7. Grainbelt Central, 8. Spanish West, 9. Desert West, 10. Greenbelt West.

area portrayed in the film *The Deer Hunter*, "Smokestack East" is somewhat of a decaying area as the major manufacturing industries fade and people move out. Even with the overall rise in the population of 11.1% over the decade between 1970 and 1980, this area's population rose only from 12.9 million to 13.0 million—only 0.3%. And the National Planning Association projects that of its five slowest growing SMSAs, three are in this area—Binghamton, NY/PA; Elmira, NY; and Utica-Rome, NY.

It's not surprising, therefore, to find that 41.0%, according to the 1978 CARS, of DIYers here are more than 45 years old, compared to 40.8% nationally.

Smokestack East's industrialized mid-size towns sit on rolling hills—an important geographic shaping factor. People here are union-oriented. Cold winters affect DIY sales, but this is a heavily DIY-oriented area.

Old South

Largely the old 13-state Confederacy, the values of the Old South, however, also are strongly felt in some areas of some traditionally northern states, such as

Maryland, Illinois, Indiana, Delaware, and Missouri.

It's a booming area, as new industries and people move here, largely at the expense of the smokestack area. Population grew 15.9% between 1970 and 1980—from 28.7 million to 33.3 million. Interestingly, half of the workers in the U.S. who work for companies which are largely foreign owned, live here. This is where the new, overseas money is coming. One reason is that unions are not strong in this area.

Cars in the Old South are still traditional, large American ones, and the car is still an important symbol here. Cars here don't rust due to salt on the roads, and people take good care of them. Relatively mild winters help DIY sales. And DIY sales can be above average in the area—as much as 36% of all automotive repair work done in Orlando, FL, for example, is done by DIYers.

So, it's no surprise that people here are DIYers. Where 22.1% of the car owners here are responsible for the vehicle maintenance, 28.1%—a statistically significant 6% jump—claim to do their own DIY work on their cars, accord-

A NATION DIVIDES: MARKET REGIONS

DIYERS BY REGION

With the national average being 100, percentages of DIYers who are occasional (an hour or less DIY work monthly), average (1-5 hours monthly), or serious (more than five hours monthly) can be indicated regionally through indexing. Hence, for example, the fact that Greenbelt East indexes 167 in occasional DIYers and numbers below 100 in the other two categories shows that DIYers in that area tend to do less automotive DIY work than DIYers nationally.

	Greenbelt East	Megapolis North	Smokestack East	Old South	Caribbean South	Smokestack Central	Grainbelt Central	Desert West	Spanish West	Greenbelt West
Occasional	167	64	89	78	156	133	106	71	58	161
Average	85	109	111	104	101	80	101	111	99	79
Serious	78	86	76	99	42	102	96	99	141	87

Source: Automotive Marketing's 1987 Consumer Automotive Repair Study

ing to the 1987 CARS.

Caribbean South

Miami, the major urban center of this geographically small area is not traditional Old South. Its value systems are very different from those of Atlanta. It has a heavy influx of northern retirees; but it also has a very, very large Cuban population. Much of the population is recently arrived. The fast-growing area, its population grew 47.2% between 1970 and 1980, from 5.2 million to 7.7 million.

And, its large older population has caused full-size car sales to be better than average in this area, according to a June 1986 article in *Advertising Age*. How much of an older population? Well, 32.3% of the Miami-Hialeah area population is over 50 years old; 39.6% of those in Fort Lauderdale are over 50, as are 38.9% of those in Naples, and 42.9% of those in Fort Myers-Cape Coral. These make, therefore, for poor DIY areas.

However, for those who do their own work, good weather year around means good DIY, shade-tree mechanic sales. The 1987 CARS data indicates that 1.2% of all DIYers both live here and do some sort of automotive repairs and maintenance.

Smokestack Central

Garreau put this area and that one we call Smokestack East into one area he called the Foundry. Management Horizons split them apart, and we agree. The inhabitants of this area are affected by their flat country and only several-generations away pioneer attitude. Chicago is its main urban center. Unions are

strong in this area. One result is that workers' compensation rates in the area are among the highest in the nation.

As its eastern cousin, the area has grown little, in terms of population, indicating more movement out of than into the area. Population growth between 1970 and 1980 was 2.1%, from 33.7 million to 34.5 million. With the decline in basic industries, this area, obviously has suffered.

In fact, Ameritrust Corp., Cleveland, calling this area "MidAmerica," has said it will take an additional \$20 billion a year in investments, made each year for the next 15 years, to prevent its decline to second-class status and to "achieve the region's potential as the nation's New Industrial Frontier." Actually, there is little evidence that this sort of funding will be forthcoming. The company says the area's problems are caused by workers' compensation rates, state tax policies, environmental regulations, and high health care costs.

Despite the poor general area economic indicators, at least one chain, Perry Drugs' Auto Works division, feels this is a perfect area for an aftermarket retailer. According to the company's statistics, while 23% of the nation's population live roughly in this area, 25% of the nation's blue-collar workers and 25% of the nation's cars are registered in it. And, there is almost as high a percentage of young males in the area—indicating a prime number of individuals who fit the traditional DIY profile. The result is that they say they are committed to staying in the area, even with

their major future growth plans.

It is, therefore, not surprising to find that while 9.4% of the U.S. population who live here are responsible for maintaining some sort of vehicle, a larger percentage (11.9%) actually do their own DIY work.

Grainbelt Central

Farming communities and vast distances and similar types of people in terms of race and religion give this area its unique feeling. Only 1% of the population in Minnesota is black; 1.4% of Iowa is black; the percentage in South Dakota is even lower.

Yet, the area's inhabitants don't have long lines of ancestors who lived here. According to the 1880 census, 44% of Nebraska's inhabitants had parents born overseas; 66% of those from the Dakotas were of foreign parentage; 71% of Minnesota's were; and as much as 73% of Wisconsin's were. Most of these people, too, were northern European.

Today the area is growing faster, in terms of population, than the rest of the country. Where the country grew 11.1% from 1970 to 1980, this area went from 3.0 million to 3.8 million—small sounding, but actually a 26.4% growth. And DIYers don't fit in in the very cold winter weather in much of the area (even north Texas can be colder than one might think.)

Cars are important here; partly because of the long distances and many miles the people put on them, partly for other reasons. According to Garreau, "In Minnesota you can still find automobiles to be a sectarian issue. One denomination drives Fords and another drives Chevrolets, be-

A NATION DIVIDES: MARKET REGIONS

VEHICLE TYPES BY REGION

With the national average being 100, percentages of DIYers who own more or less than the national average of the following types of vehicles are indicated through indexing. Hence, for example, the fact that car ownership indexes at 72 in Greenbelt West, while light truck ownership indexes at 131 indicates that DIYers there tend to own trucks over cars.

	Greenbelt East	Megapolis North	Smokestack East	Old South	Caribbean South	Smokestack Central	Grainbelt Central	Desert West	Spanish West	Greenbelt West
Cars	108	101	107	106	106	105	108	86	99	72
Light Trucks	74	41	67	123	51	52	100	215	113	131
Vans	133	57	90	112	167	111	107	98	67	57

Source: Automotive Marketing's 1987 Consumer Automotive Repair Study

cause one wouldn't dream of buying a car from an infidel."

Given all the farmers here, who typically do their own maintenance and repair work, it is not surprising that 16.2% of the U.S. population both live here and do their own automotive DIY work, according to CARS data. This compares to the fact that only 12.7% of the U.S. population who live here are responsible for maintaining some sort of vehicle.

Spanish West

The area we call Spanish West takes in a large part of California and runs east to Houston. More than 31 million people live in it—15% of the population of the United States. About a quarter of these people—almost 4% of the entire country's populations—live in Los Angeles.

As the name suggests, lots of people of Hispanic origin live there. In fact, of the top 50 Hispanic-origin-populated areas in the entire U.S., picked by sheer numbers rather than population percentages, 25 are in Spanish West. Every county isn't like Webb County, TX, which is 95% peopled by those of Hispanic origins, but there are many Spanish accents in just about every county in this area.

Cars also have a different look about them. Foreign car registrations here are significantly above those nationally. In Spanish West, 24% of DIYers bought some automotive product exclusively for a foreign car, while another 14% maintained both a domestic-built and foreign car. Nationally, only 11% of DIYers bought for a foreign car, while 13% bought for both types.

And, Spanish West DIYers aren't apprehensive about working on their foreign cars. Of them, 64% said the fact it was foreign didn't stop them from working on it. Nationally only 53% agreed.

It's obvious that Spanish West retailers recognize this. As Lester C. Walters, Midnite Auto Supply, Hayward, CA, told us, "The import market is no longer a 'specialty market'." While many DIYers elsewhere in the nation shop for foreign car parts and accessories at a different place than where they would shop for domestic car parts, in Spanish West 67% of the DIYers shop the same place for both.

Oddly enough, however, Spanish West's DIY percentage isn't equal to the population percentage. According to our CARS survey, only 9% of the nation's DIY population lives in Spanish West. One reason is the many older people living here: 26% of both Phoenix's and Tucson's populations and 24% of Los Angeles' population are 50 years old or older. They don't do DIY work as much as younger drivers.

Of DIYers here, 61.8% are between the ages of 25 and 44—a considerably larger percentage than the 46% of DIYers nationally who fall into that age bracket. However, while 40.8% of DIYers nationally are older than 44, in Spanish West only 21.4% falls into that age range, according to the 1987 CARS.

But, DIY is still strong in the area. In a large part, this is because people live in sprawling urban centers. People have to drive, and therefore own—and maintain—cars in astonishing num-

bers. "We are rapidly becoming one City of Southern California, a city 250 miles long and 50 miles wide with more than 15 million drivers by the year 2000," David D. Grayson of the Automobile Club of Southern California recently told the *Los Angeles Times*.

It's not just the miles that make DIYers, however. Most Spanish West DIYers do their own automotive DIY work because they enjoy it or find satisfaction in the work and because they have confidence in their own skills. Those DIYers put in much longer hours on DIY than is typical of DIYers nationally.

Otherwise, Spanish West DIYers are similar to DIYers nationally. They are generally the same age. Their incomes are just about the same. They do tend to be a bit better educated than the national average, with 57% having at least attended some college compared to 48% of DIYers nationally.

Retailers have recognized these trends and have profited from them. The result has been that the area supports some of the country's largest chains—chains like Pep Boys and Chief Auto. A representative of a four-store chain, Jay's Da-Nite Auto Supply, Tucson, AZ, told us, "The big and the swift will prosper. The rate of change in the automotive aftermarket will continue to increase. The market will continue to segmentize and specialize." Smaller chains have survived by emphasizing what's unique in the Spanish West market.

The message is clear—retailing in Spanish West means catering to that unique market,

A NATION DIVIDES: MARKET REGIONS

with its many foreign cars and hobbyist DIYers.

Desert West

Folks in Desert West often have to drive 50 miles to shop or to work. The area's few potential customers are spread out over a wide area. In all, 10.7 million people (5% of the U.S. population) live in an area of roughly 750,000 square miles (about 25% of the continental U.S.). However, 2.4 million (22.4% of the Desert West's total population) of those people are clustered in seven counties around Denver and 1.3 million (12.1%) in four counties around Salt Lake City. That leaves seven million people in roughly 725,000 square miles. As a result, many area retailers' trading areas comprise whole counties, not single zip codes.

Although Western immigration has slowed recently, the Desert West grew rapidly through the 1970s. For example, the seven-county Front Range area of Colorado had 56,000 people a year immigrating in the 1980s, and towns like Rock Springs, WY, and Craig, CO, doubled in size then.

Another retailing consideration is that Desert West is a light truck, van, and recreational vehicle salesman's paradise. In all, 47% of Wyoming households, 44% of Idaho households, and 43% of Montana households own a truck or van. In fact, all the Desert West states were well above the national average of 23% for truck or van ownership.

Although the actual numbers of trucks aren't as dramatic, a goodly percentage of Desert West DIYers work on a truck or van, so retailers had better stock more than just a few items in this category. Many of these trucks are used on the job, but many are also daily driving RVs.

Five percent of the CARS survey DIYers live in Desert West. They are mostly male (79%)—the highest percentage of any region in the U.S. Otherwise they are reasonably similar to DIYers nationally, except for income. Some 17%—almost twice the national average—had household

incomes over \$50,000, while only 29% (versus a national average of 34%) had household incomes under \$20,000. The oil price decline may change this.

Although the Desert West does not quite match either the Greenbelt West or the Spanish West for imported car ownership, foreign cars are still important for Desert West retailers, especially imported light trucks. About 19% of DIYers bought parts or accessories for imported cars exclusively, and another 17% bought for both a domestic and an imported car. Both these numbers are well above the national average for DIYers, indicating a strong need for area retailers to stock foreign car parts.

But, it looks as though retailers are not doing a good job in the Desert West when it comes to imported cars. Over half (53%) of the DIYers shopping for parts for these cars say they go to a different outlet for parts for imports than they do for domestic cars.

Greenbelt West

The part of the county we call Greenbelt West is a narrow strip of land bordered by mountains to the east and the Pacific Ocean to the west running from San Francisco in the south up to Seattle and the Canadian border.

Crowded into this belt are 11.2 million people—about 4.4% of the population of the country. Greenbelt West gained roughly half a million people between 1980 and 1984 for a growth rate of 4.5%, according to the Bureau of the Census. About 60% of these people live in the three major Greenbelt West metropolitan areas: Seattle/Tacoma (2.2 million people); Portland (1.1 million people); and San Francisco (3.4 million people). But the highest growth areas were in Northern California.

Because the Cascade and Sierra Nevada mountains catch the moisture coming in off the Pacific, Greenbelt West enjoys mild, rainy weather. So, while car care products sell well in Greenbelt West, a DIYer who plans to work on his car on the weekend may be rained out.

The area-wide DIY percentage is the same as the area-wide population percentage. In fact, only 3.6% of the U.S. population both live here and do their own automotive maintenance and repair work, according to the 1987 CARS data. Nevertheless, at least two successful major chains do most of their business in Greenbelt West—Schuck's, (in the Seattle area) and Grand (in Oakland).

Chains should be stressing imported car parts. In each of Greenbelt West's metropolitan areas, imports account for 50% or more of new car registrations. In Greenbelt West, 30% of DIYers bought some automotive product exclusively for a foreign car, almost triple the 11% national average for DIYers. In addition, another 19% purchased products for both a domestic and a foreign car—well above the national 13% average.

The importance of imported cars in Greenbelt West is underlined by the owner of a Western Auto in Silverton, OR, who told us, "Aftermarket people are not accepting the fact that foreign cars are here to stay, and they'd better do a better job of supplying parts and accessories that will fit these cars."

Strangely enough, despite the proportion of the area's imported cars, 56% of DIYers were apprehensive about repairing a foreign car. But stores in Greenbelt West must do a good job of satisfying DIYers since only 23% shop in different outlets for imported car parts and accessories than they do for domestic cars.

Of course, there are marketing areas within marketing areas. One markets in Manhattan differently than the Bronx—and, within Manhattan, markets differently in Harlem than on the lower East Side. Yet, a general mindset can be found in each major, or "mega-marketing area," that defines that area as being very different from other areas. And retailing chains that fit into that mindset do well, while others don't necessarily have the same success. ■

LOOKING AT TODAY'S CONSUMER

The 1987 DIYer is a male who is better educated, and makes more money. Here's what products he buys.

Here's the story in a nutshell: in 1984, 71% of the country's population did some sort of DIY work on their vehicles; in 1987 this percentage had grown to 79%. However, the most popular product categories seem to be slipping in sales penetration.

There are a more significant changes in the DIY market, too, that are revealed by comparing our 1984 *Consumer Automotive Repair Study* with our 1987 *Consumer Automotive Repair Study*. There are now 9% more women DIYers than there were three years ago. The number of college graduates jumped 6%, while those DIYers who failed to graduate high school fell 5%. There are 18% less DIYers who are younger than 24-years-old, while there are 9% more DIYers in the 25-44 year old age bracket. There are 12% less DIYers who make less than \$20,000 annually, while 9% more make more than \$40,000 a year. Now, 4% more hold white collar jobs, while the number holding blue collar jobs fell 6%. DIYers own more cars, too, with 5% more owning two or more cars in 1987 than did in 1984.

And, the average DIYer owns a domestic nameplate vehicle—overwhelmingly one made by General Motors Corp.

The picture, therefore, of 1987's DIYer is one of a male (although the number of women is constantly growing strongly), who is better educated and makes more money than before, holds a white collar rather than a blue collar job, is responsible for more vehicles than before, but still drives his "Chevy to the levee."

Interestingly, 22.8% of DIYers we surveyed indicated that they were responsible for maintaining a vehicle that they didn't own.

The Serious DIYer

In all, 19.7% of the DIYers we surveyed did notably more work on their cars than the average (57.6% put in 5 hours or less monthly). This number has fallen slightly from the 21% who did this much of their own work monthly in 1984. But this is still the best customer group an automotive parts and accessories retailer can have. Because, this group of less than 20% of all the DIYers out there buy 42.8% of all the headlights, 47.6% of all the custom wheels and wheel covers, 48.7% of all the struts, 35.8% of all the car sound equipment, 42.1% of all the starter motors, 40.7% of all the water pumps, and 40% of all the seat covers sold over the course of a year.

So, it's not surprising that they

are big auto store shoppers. In all, 60.0% of these heavy DIYers visited an automotive parts store at least once a week during the course of a year, while only 40% of those who did an average or less amount of vehicle maintenance work themselves visited an auto store as often.

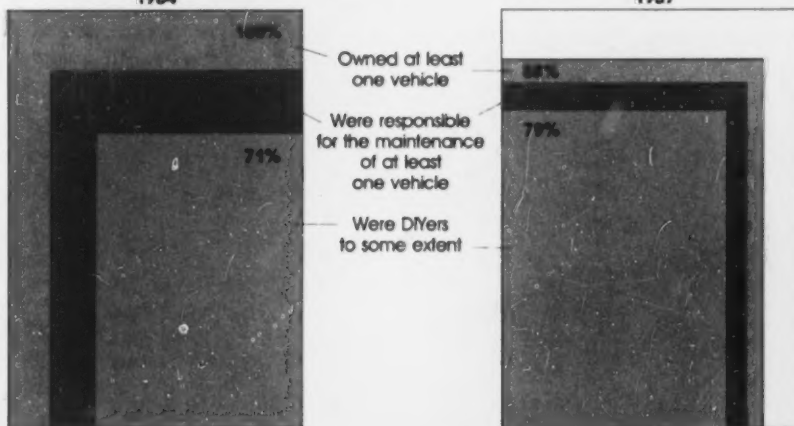
This group is largely male: In all, 24.9% of male DIYers and 9.7% of female DIYers fall into it. Serious DIYers maintain more vehicles than usual; 32.3% maintaining three or more vehicles, compared to 17.1% with two and 15.5% with one. Among those making between \$20,000 and \$30,000 annually, 24.5% of the DIYers are these serious DIYers.

Slightly more owners of light trucks and vans are, by the way, serious DIYers than are car owners.

The DIYer's Vehicles

The tremendous sales increases of foreign nameplate cars in the U.S. hasn't affected the DIY market nearly as much as it has the new car market. Where 25.6% of new cars registered in the U.S. were imports, only 20.8% of DIYers drive a car with a foreign nameplate. In all, 42.5% of all DIYers own Chevrolets, while 33.7% own Fords, 12.3% own Oldsmobiles, and 9.7% own Pontiacs (totals equal more than 100% because of multiple vehicle ownership). By way of contrast, the most popular for-

HOW WE SEGMENTED THE RESPONDENTS



LOOKING AT TODAY'S CONSUMER

eign nameplate car among DIYers is the Toyota, and only 9.1% of DIYers own one model or another of this Japanese car.

Obviously, the *average* foreign car owner is generally less willing to work on his than domestic nameplate owner or still is covered by the original warranty.

However, 30.4% of Chevrolet owners are serious DIYers, while 13.5% of Toyota owners fall into this category. In the same way, 20.9% of Ford owners are serious DIYers, compared to the 33.7% of DIYers owning a Ford. However, the second most popular imported car among DIYers is the Volkswagen, with 6.5% of all

DIYers owning one of these vehicles. But 18.7% of Volkswagen owners are serious DIYers.

The implication is that, while DIYers generally prefer American cars, those who own foreign ones are more apt to be those important, serious DIYer customers.

Age is another important factor in determining if someone responsible for maintaining a vehicle does it himself or takes it for professional service. In all, 52.2% of DIYers own 1977 or earlier car models. And, people who own cars this old, own more than one vehicle. For example, 80.5% of those admitting to 1975 or earlier

PURCHASES AT

NON-TRADITIONAL OUTLETS

Three years ago we found that non-traditional outlets such as drugstores, hardware stores, supermarkets, and convenience stores had not yet made serious inroads into the automotive products business, at least as far as DIYers were concerned. They don't seem to have gained ground over the past three years.

■ 1984

■ 1987

Wax/polish	14%
	13%
Antifreeze/coolant	11
	15

er car models own two or more other vehicles. Another 42.0% own 1977 or 1976 vehicle models (again, totals equal more than 100% due to multiple vehicle ownership).

And, the type of vehicle also plays some part in determining what sort of work the maintainer does on it. Only 21.3% of car owners are serious DIYers, while 30.2% of light truck owners and 23.5% of van owners fit into the same category.

The bottom line? The successful retail chain still emphasizes parts and accessories for older American vehicles, but also offers parts for major jobs for the leading import nameplates.

What They Buy

While there were some significant changes over the past three years in the basic profile of the DIYer, what DIYers actually bought has changed little. In 1984 the top five products were, in order, oil, oil filters, antifreeze/coolant, air filters, and spark plugs. In 1987 the top five products are oil, oil filters, antifreeze/coolant, air filters, and wax and polish products. Spark plugs traded places with wax and polish products, to fall to the number six slot in 1987.

What had changed, slightly

RESPONDENT DEMOGRAPHICS (AMONG ALL DIYERS)

What was the sex of the DIYer respondents?

	1984	1987
Male	74%	65%
Female	26	35

What was the marital status of the DIYer respondents?

	1984	1987
Married	64%	62%
Divorced/Separated	12	12
Widowed	4	5
Never married	19	21
No answer	1	0

How well educated were the DIYer respondents?

	1984	1987
Less than high school grad	14%	9%
High school grad	40	39
Some college	24	24

How old were the DIYer respondents?

	1984	1987
Under 18	1%	*
18-24	29	12
25-34	18	25
35-44	18	22
45-54	12	12
55-65	14	13
Over 65	9	17

How much do the DIYer respondents make per year (household income)?

	1984	1987
Under \$10K	13%	8%
\$10K-20K	28	21
\$20K-30K	14	21
\$30K-40K	14	15
\$40K-50K	6	8
Over \$50K	6	13
No answer	19	14

* Indicates a percentage too small for accurate measurement.

What do the DIYers do for a living?

	1984	1987
Professional/Tech	16%	20%
Managers/Admin	11	10
Sales	4	5
Clerical	6	9
Craftsmen	17	14
Operators	5	6
Transport Operatives	5	4
Laborers	2	2
Farmers	2	1
Service Workers	7	4
Armed Forces	2	*
Housewives	5	8
Students	3	3
Retired	12	12
Unemployed	3	2

How many vehicles were the DIYer respondents responsible for?

	1984	1987
1	48%	43%
2	35	37
3	11	13
4+	6	7

Where do the DIYer respondents live?

	1984	1987
House	74%	76%
Apartment	17	17
Mobile home	7	7

Do the DIYer respondents rent or own?

	1984	1987
Own	71%	68%
Rent	27	30

LOOKING AT TODAY'S CONSUMER

ITEMS PURCHASED

We asked DIYers what products they bought over the year prior to our study. Motor oil was the most popular item, but traditionally slow-moving hard parts finished higher than expected when compared to other accessories.

■ % of DIYers purchasing in 1987 study

■ % of DIYers purchasing in 1984 study

Motor oil	94%	Spark plug wires	27
	97%		35
Oil filters	80	Exhaust system pipes	25
	90		32
Antifreeze/coolant	76	Floor mats	23
	80		*
Air filters	68	Shock absorbers	21
	78		31
Wax/polish	64	Car sound	20
	74		24
Spark plugs	59	Paint	16
	74		23
Wipers/blades	57	Water pumps	14
	59		44
Tires	55	Auxiliary lighting	13
	*		9
Brakes or brake parts	42	Carburetors	9
	47		*
Additives, oil or gas	37	Seat covers	8
	55		13
Headlights or parking lights	35	Body filler	8
	42		18
Mufflers	30	Wheels/wheel covers	6
	36		7

* Product category not included in 1984 study

WHY YOU SHOULD

ENCOURAGE DIYERS

In 1984 we found that 25% of serious DIYers stopped in an auto store on a weekly basis. Obviously, since then weekly visits to auto stores among all sorts of DIYers has fallen off, but more people are visiting auto stores than ever.

Percentage that had shopped in an auto store weekly

	1984	1987
Serious DIYers	25%	18%
Study average	7	2
Occasional DIYers	3	0

Percentage that never shopped in an auto store

Serious DIYers	3	0
Study average	7	3
Occasional DIYers	16	8

but perceptibly, was the percentage of DIYers buying these items. Where 97% of all DIYers bought oil in 1984, this year it was 93.5%. Where 90% bought oil filters in 1984, the number dropped to 80% in 1987. Antifreeze/coolant buyers fell 4% over the three years; air filter buyers and wax and polish product buyers fell 10% each.

This trend holds with serious DIYers, too, although on a lesser scale. For example, 28% of serious DIYers bought antifreeze/coolant in 1984, compared to 26.7% who bought it in 1987. Serious DIYers made up 25% of the oil-buying DIY public in 1984; they made up 23.9% of that same group in 1987. This trend, too, holds even with products that DIYers tend to buy less of over a 12-month period. For example, 76% of DIYers who bought batteries in 1984 were serious DIYers; only 28.3% of battery-buying DIYers in 1987 were serious DIYers.

So, to fill the needs of the increased number of DIYers, retailers have to make sure to maintain full product lines. Those who do, and aim their merchandising at the DIYers in their area, should get the advantage of the growing DIY market. ■

MARKETING BY LIFESTYLE

Your market is made up of all sorts of people. Knowing their lifestyles makes you a better retailer.

By employing two key concepts—marketing segmentation and lifestyle marketing—aftermarket retailers can gain more bang from each promotional buck whether they operate a single retail outlet or a chain of hundreds of stores.

The first challenge is to segment the market. "If you're not thinking segmentation, then you're not thinking," writes one leading marketing expert, Theodore Levitt, in his latest book *Marketing Imagination*. Indeed, the marketing challenge for the rest of the 1980s is to target promotional expenditures to reach precisely the consumer segments that will result in future sales.

No Typical Customer

No retailer survives by serving some mythical "typical" customer. In fact, segments that vary from the national DIY aftermarket customer stereotype may offer powerful sales potential. Some examples include:

• Segmentation by sex.

Recent years have witnessed a dramatic increase in the number of women in the labor force—some 55% of all women work at jobs outside the home. New found economic clout translates directly into automotive purchasing power and in 1985 40% of all new cars were sold to women (up from 23% only 15 years ago). *Automotive Marketing's Consumer Automotive Repair Study* reports that better than one of every four DIYers is a woman, and in many urban markets and college towns, women may represent a much higher potential market.

• Segmentation by ethnicity.

Our nation's 18 million His-

panics represent another major "non-traditional" DIY segment. Hispanics are America's second fastest growing major ethnic segment (Asian-Americans are first), increasing at a rate five times that of the general U.S. population. While over 50% of the nation's Hispanics live in Texas or California (*Automotive Marketing's Spanish West*), nearly every major urban area has a rapidly growing Hispanic population. The New York area has 2.5 million Hispanics and Chicago, 750,000. These numbers represent substantial buying power.

• Segmentation by age.

The late teens and early 20s are a crucial phase in the consumer's development because retail affiliations that may last a lifetime are being developed in those years. The youth market represents a major conquest market for the DIY retailer. One way to reach this segment is through education. Students drive cars—55% of all college students own cars and another 25% have access to cars. In personal-transportation-dependent regions (such as the Southwest and West) student car ownership on some commuter campuses exceeds 90%. The "starving student" stereotype simply no longer fits today's 12.6 million college students. Some 57% of students have jobs that pay \$2,000 or more annually (and a surprising 22% earn \$5,000 or more annually). Moreover, 56% of college students come from families with annual incomes of \$30,000 or more, and nearly one of every three college students comes from a family with annual income of \$50,000 or more. National studies indicate

that one in five DIYers is under 25, and most certainly the college (and high school) consumer segment is a viable potential segmented marketing target.

• Segmentation by vehicle type owned.

Approximately 40 million of the nation's 152 million registered vehicles are light trucks, vans, or off road vehicles. In 1985 alone, new light truck sales reached 3.6 million units, a 36.3% increase over the 1984 sales levels. One study found that the average life expectancy of light trucks is 14.5 years, compared to domestic passenger cars' 9.9 years. It is no secret that light trucks have proved to be a bonanza for the aftermarket industry.

One way to thrive in such an intensely competitive environment is to carefully delineate all sub segments of the light truck market. In general, light trucks are the "transportation toy" of baby boomer boys. The national profile of the light truck owner is male, 34 years old, college educated, with a hefty annual income of \$34,000. Here again no retailer survives by serving national stereotypes. In Southern California, persons of Spanish surname account for one in five new light trucks sold, and probably an even greater percentage of used light truck ownership.

Targets Are Apparent

By segmenting the market, targets areas become apparent. The other side of the equation is how to reach targeted consumer groups with maximum impact at minimum cost.

Mass media advertising offers one alternative, and selectively employed, it may hold value for even the single store retail aftermarket outlet. For the larger chains, "media mix" advertising is a regular fixture, popular because it is both proven and just plain convenient. Yet mass media has its drawbacks. You pay to reach non-customers and may miss some segments you may need most.

Direct mail (such as newsletter)

MARKETING BY LIFESTYLE

ters or "loss leader" specials mailed to your existing customers or targeted households) offers a far more selective method of reaching segments and is used by chains as a major sales tool. Here again the problem is "clutter"—the average American household receives 598 pieces of mail each year.

Hit The Targets

One effective and creative means to narrow the allocation of promotional resources to reach targeted segments is lifestyle marketing. Each market segment has certain "points of commonality," shared traits of lifestyle. These may include interest in sports, recreational events, even the simple pursuit of becoming more knowledgeable about fixing one's car. For the innovative aftermarket retailer, these lifestyle commonalities may offer cost effective "platforms" for promotional endeavors at local and regional levels.

Here's an example of how this works. A southern California beach city, financially strapped as many local governments are, needed vehicles for its shoreline lifeguard crew. A local import dealer jumped at the opportunity by providing FWD mini-trucks at well below market cost with provision that the dealer's name be displayed on the vehicles. The dealer received:

• Exclusive exposure.

The dealer earned exclusive exposure (no other vehicles are allowed on the beach) before a segment—California youth—that attends the beach in the hundreds of thousands all summer long, a segment very difficult to economically access through media, and a principal buyer of mini-trucks.

• Vehicle demonstration.

The dealer demonstrated the "off-road" performance of his vehicle, no easy task in the heart of a major metropolitan area.

• Endorsement.

The dealer and truck earned "third party endorsement" from the city's official lifeguard crew—stylish, and highly respectable

image enhancers.

How To Start

What steps are necessary to implement lifestyle marketing programs? The first step is to tap your knowledge of the local community or region in which you operate. Know the customers' lifestyles—not just his or her buying behavior while strolling through the store—but every aspect of the customer's 24 hour-a-day lifestyle. With a strong knowledge base, "lifestyle marketing" can evolve.

Common denominators can be found among specific market segments—positive activities and values that include recreation, family, ethnic pride, concern for car safety and interest in learning car repair techniques, cultural events, and prominent local or regional sports and other personalities. Each of these lifestyle factors offers a potential "platform" for the delivery of grassroots marketing techniques. In short, become sensitized to the lifestyle needs of your constituents.

The next step is programming. Be bold, aggressive, and innovative. Anyone can pick up the phone and place advertising in the newspaper or on the radio and your competitors do it daily. Pick up a blank sheet of paper instead and start listing market segments, their concerns, and how you might reach them.

While women represent 35% of DIYers, studies show they have less confidence in their ability to do DIY work: nearly half feel they "can do almost no jobs" while only 11.6% of all men felt that way. Carve out an "education center" display in your store, with how-to manuals and other consumer-oriented literature. If local colleges teach car repair classes, post that information. The point is not how many customers attend the classes, the point is that every customer who enters your store is aware of your efforts to assist the DIYer, including every female customer.

To reach Hispanics go to Hispanics. Be a partial sponsor of local festivals, get signage at charreadas (Mexican rodeo

troupes that tour the U.S. annually), call the Catholic Church and see if you can get high visibility involvement in some local Church-operated charity, sponsor the local adult soccer league if it is predominantly Hispanic. Be creative. Let Hispanics know, one-on-one, that you want their business.

To reach students, go to students. Buy space in the school paper, hire the football team quarterback or coach as your local media spokesperson, grant 10% student discounts on oil and filters, sponsor a pep rally, hold a contest, sponsor a scholarship, do whatever you think will, on a grassroots level, let the student know you want his or her business.

Remember, a broad-based media-driven "shot gun" approach to marketing is loud and convenient. But you may be wasting expensive ammunition. Tailor your marketing not to reach everybody, but to reach only potential buyer consumer segments. In formulating marketing strategy, continually ask yourself these three questions:

- What are the lifestyles of my potential buyers?
- Am I paying to reach nonqualified buyers?
- Are my marketing efforts missing key consumer segments?

A final step in formulating a lifestyle-oriented marketing plan involves sensitivity. It is amazing how much time and energy retailers spend on preventing employee pilferage of stock, yet are apathetic toward the "pilferage" of new customers forever lost due to arrogant and insensitive behavior by sales personnel. Your staff must understand that it is often downright intimidating for women, Hispanics, even younger customers including students, to enter many retail establishments. The effort on your part must be extraordinary. Your competitors are working on the problem—can you afford to be unwilling or unable to adjust to the changing dynamics of the marketplace? ■

PRODUCTS GO TO MARKET

Stocking the most wanted brands and advertising highly competitive prices builds traffic and dollars in your store.

There is a plethora of merchandise an aftermarket retailer can stock and markets he can address. But he has to know what product lines are moving best, what the latest trends are, and what his customers will buy. Armed with this knowledge, the retailer can make intelligent buying decisions.

Successful retailers, therefore, have entered markets that they had previously ignored. Steve Cantley, Nationwide Auto Parts, Lake Park, FL, for example, notes he gets more and more customer requests in the specialty line. "These areas are of interest to South Florida drivers," he comments. "These markets could easily become a strong 40-50% of the retail aftermarket due to customer demand. People like to 'individualize' their machines."

But, specific product knowledge is also vital to sales. John Hutchinson, Automotive Parts World, Louisville, KY, thinks this is the most important part in selling. "We try to be knowledgeable in these lines and help the customer," he notes.

Given product knowledge and proper stock mix, the volume retailer can do well in any area. It's worth doing.

Motor Oil, Chemicals

The basic approach to retailing motor oil and chemicals emphasizes selection, price, and promotion. Stocking the most wanted brands and types of products and advertising highly competitive prices build store traffic and total sales dollars. If this approach results in below average profit margins and profit dollars for oil and chemicals—well, the hope is

that the increased traffic will result in more profitable sales of other items. The main thing is to keep customer away from a competitor for oil, antifreeze, car wax, or specialty chemicals.

This approach is used by most retailers. However, there is a change: volume is still important, but there is more emphasis on increasing profits and margins on oil and chemicals.

Selection is still an important aspect of oil and chemical merchandising because consumers want choices. But the stores are more *selective* about their selections: they weed out losers and secondary brands.

One buyer put it simply, "We have to stock chrome polish but we don't have to stock five brands of chrome polish!" Another suggested stocking too many choices may actually hurt sales: "We've given the car owner so many choices on some items that he gets confused and walks out without buying any."

The trend toward greater selectivity benefits the market leaders in each category.

However, an interesting counter-trend lets stores push one or more secondary brands (or a private brand) in each category because of excessive discounting on the leading brands.

A good example is the antifreeze/coolant category where one brand far outdistances the pack in the race for share of market (SOM). Precisely because it is the best known brand—and perceived as a potent traffic builder—many retailers sell it at close to their cost—and, not infrequently, *below* their cost.

Many retailers accept this situation as a business reality—but some have decided to promote other brands with better margins in search of higher profits.

Selectivity also applies in the appearance chemical category. Old-time favorites continue to sell well, but retailers have weeded their inventories of me-too types of super-premium polys, spray waxes, and fast waxes. However, manufacturers continue to introduce new types of appearance products.

In the additives category, there are also new products. Because the federal government requires petroleum refiners to phase out leaded gasoline, there is growing interest in marketing additives which provide the valve seat protection and octane boost of lead. Several brands of lead substitute additives—plus one additive containing real lead—have been introduced. There is also a new market for fuel injector cleaners.

There are differences in marketing in each chemical product category. Specifically, the different categories and their problems are:

Motor Oil

Oil men agree that the retail motor oil market (consumption by passenger cars and light trucks) is about 600 million gallons per year. Estimates of the DIY segment start at 55-60%, although some companies put it as high as 70%.

Quaker State Oil Co., Oil City, PA, and Pennzoil Products Co., Houston, TX, have the leading national brands. Companies like Valvoline Oil Co., Lexington, KY, and Kendall Refining Co., Bradford, PA, are important in the market because of their Midwestern strength. Burmah-Castrol Inc., Hackensack, NJ, achieved national prominence due to effective pull-through advertising.

For years, the motor oil retail market has been characterized by low margin sales. Motor oil is used as a traffic builder by food chains, drug chains, and home centers as well as automotive chain stores. Non-automotive re-

PRODUCTS GO TO MARKET

MORE DIY MOTOR OIL TO BE SOLD

With the rapidly changing motor oil market still in a flux, the one thing that appears to be clear is that more motor oil will be sold in the future over-the-counter directly to DIYers. The percentage growth will be very small, but will outpace the percentage growth projected for total motor oil sales.



Sources: National Petroleum Refiners' Association, Frost & Sullivan

tailers are reducing their number of motor oil SKUs, and they are concentrating their promotional efforts on the leaders.

While some retailers drop oil leaders, this radical step is not typical of market trends. However, there is no doubt that medium size automotive chain stores resent the deep discounting of name brands by mass merchandisers and the large auto chains.

Oil Packaging, Promotions

The motor oil market is fiercely competitive. Manufacturers battle with packaging and promotions. Rebate promotions are still a market feature. Retailers hate handling rebate coupons and the oil companies are not really enthusiastic about them either. Rebate promotions are very expensive when a substantial number of consumers take the trouble to mail in their coupons. But—the promotions move merchandise.

Several oil companies have changed their rebate strategies. One, for example, puts the rebate coupon on its plastic quart bottle so retailers no longer have to handle the coupons. Consumers do have to mail the coupon back,

however.

Acceptance of resealable plastic containers for oil, as replacements for the fiber quart, has been good. Just about all oil companies have introduced their own versions of plastic bottles, and they are moving quickly to phase out fiber containers.

The latest question in oil packaging is what kind of plastic package to offer. The first oil companies to offer plastic bottles used round bottles. Now, a number of oil companies hope to gain an advantage by offering flat or rectangular packages. One company, going a step further, has introduced a rectangular, plastic quart which features a "visi-gauge." This clear plastic strip enables DIYers to see how much oil is poured out of the container.

A product manager on this project says, "Our consumer research revealed that many car owners have considerable anxiety about driving their cars when the dipstick shows that they are down a half quart. Rather than wait until they are down by a full quart, they want to add oil *now*. To make it easier for motorists to precisely measure out the amount of oil to be added, we've gone to our new package. It is easier to handle and easier to store than the conventional round shape."

The rise of "quick lubes," specialists who sell oil changes at \$18 to \$20, shows that there are several kinds of buyers for lubricants and that there are other motivations besides low prices. This point has not escaped the oil refiners. *Automotive Marketing* has noted the involvement of several oil refineries in quick lubes. Other oil companies, too, are exploring increasing their gallonage through the service side of the market. They reason that the DIY motor oil market has peaked. They cite demographic reasons: older (and wealthier) segments of the population are less interested in doing their own oil changes. The take-out market for motor oil is not going to slide precipitously—but it is not likely to grow.

Antifreeze/Coolant

Both the motor oil market and the antifreeze/coolant market are big, important, and slow growing. Retailers have traditionally offered deep discount prices on the name brands in both markets. But, unlike the oil market, which has several major brands, Prestone, from First Brands Corp., Danbury, CT, is the single best known and asked for brand of antifreeze. Mass merchandisers heavily promote it at sharply discounted prices. As with motor oil, this has resulted in a counter-trend: some chains are promoting secondary brands.

Significantly, consumer demand for Prestone is so great that virtually every automotive products retailer carries it. Some may not give the brand very good shelf position, but they stock it.

The total market, according to the Chemical Specialties Manufacturers Association, is 230 million gallons. Mass retailers account for about 110 million gallons while about 60 million gallons are sold through traditional market installers. Bulk sales (chiefly fleet) take up about 50 million gallons, and OE sales make up the remainder.

For the 1986-87 season, sales were expected to be slightly below 1985-86. There still are some inventories left over due to milder-than-normal winter in 1985-86.

Additive Chemicals

What do additive chemical suppliers think of selling on price only? One marketing director says, "Many retailers buy chemicals for the wrong reason, such as deals or up-front advertising money from the manufacturers. They also buy products because they offer the lowest price in their category. They assume that all products are equal and that price is the only thing which moves the product. What they should be doing is make sure that the product can be of service to their customers. This means making sure that the product really provides a benefit—that it

PRODUCTS GO TO MARKET

really does what it says it does."

Another marketing director says, "It is understandable that retailers would want to use some popular 'pivotal' items as traffic builders. However, it is foolish to football all chemical items. There seems to be a tendency among retailers to use price as the means for selling all chemicals—even the slower moving degreasers, hand cleaners, etc. As manufacturers, we deplore this. It is not good for retailers nor for us. Retailers who have hurt themselves by footballing products tend to pressure the manufacturers for price reductions."

If price is not the answer, what is? What *should* retailers do to boost additive profits and sales? He advises, "Merchandising! Be creative at the point of sale. You may have to sell antifreeze at low prices—but make sure that you remind the customer that he needs to flush out his radiator. And be sure to display radiator flushes next to the antifreeze. The same goes for motor oil; retailers should merchandise engine flushes with motor oil."

After all, there is not much point in building traffic unless that traffic buys other merchandise that can be sold at a profit.

New Additive Markets

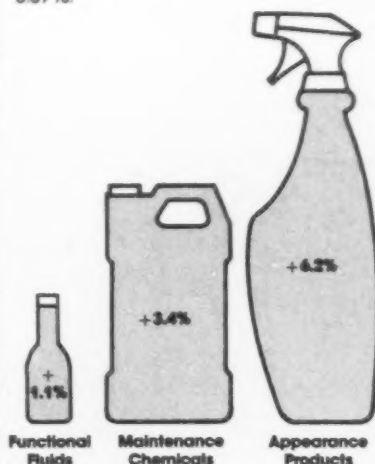
Fuel handling problems for cars designed to run on leaded gasoline and by the latest model fuel injected cars have created new markets and customers for additives.

In the past, the additive industry has depended upon a relatively small number of sophisticated customers. Mechanics or owners of older cars have sought chemical solutions to problems which might require costly overhauls. Viscosity improvers were bought by owners of cars with engine problems and carburetor cleaners have been bought by knowledgeable people to solve driveability problems. Newer car owners haven't needed these products and they haven't really understood them either.

That situation will change because of fuel injected cars. Consumer advertising and promo-

CHEMICAL MARKET GROWS

Appearance products lead the growth areaq for chemicals, but the total average growth for all automotive chemicals from 1984 to 1990 is projected at 3.07%.



Source: Frost & Sullivan

tion are making car owners aware of how clogged fuel injectors can affect durability. Fuel injectors can become clogged as a result of dirt in the fuel line. A 5% blockage can result in a perceptible decline in driveability.

Gasoline companies recognize this problem and now offer injector cleaners in their premium priced unleaded gasoline. However, the cost of this protection is high, compared to using unleaded regular gasoline plus an additive. For example, if a car drives 2,000 miles on unleaded premium gasoline (costing, on average, about 10 cents per gallon more than unleaded regular), the driver pays about \$10 extra for the gasoline company's cleaner. He could use regular unleaded gasoline and pay about 99 cents per can for an additive fuel injector cleaner. In 2,000 miles of driving he would save \$6.

So, there is a growing market for fuel injector cleaners. The additives are offered by nearly every broad line manufacturer of automotive chemicals. Most of these manufacturers also offer lead substitute additives.

The need for lead substitutes is supposedly increasing—at least temporarily—because of the phase-out of leaded gasoline. Soon, leaded gasoline will be a thing of the past, a problem for all older car owners. But demand can only be temporary because the number of older cars will decline. Moreover, consumers are getting conflicting messages about the necessity of this product. Recently, a Motor Vehicle Manufacturers Association spokesman told members of the press that, despite the change to all-unleaded gasoline, "The owners of the older cars will be able to cope with the problem. Because of their age, these vehicles have a built-up cushion of lead around the valve seats that should keep the cars running for a long time, as long as their owners refrain from high speeds and heavy loads."

Appearance Chemicals

Traditionally, car waxes, polishes, and cleaners are fast turning self-service impulse items. And, traditionally, automotive products retailers merchandise appearance chemicals by featuring selection: a wide range of product categories and brands within categories.

The danger of a wide selection is, of course, slow moving SKUs. During the 1980-85 period, retail inventories of appearance chemicals rose because of an increase in innovative products. The innovations were quickly copied by competitors, which led to crowded shelves.

For example, when one company came out with a multi-product poly kit (at a super-premium price), almost instantly, another company countered with its one-step offering. These brands were then followed by super-premium polys from every conceivable wax producer, large and small. The period also saw the introduction of convenience spray waxes and fast waxes.

Retailers may be responsible for some of the too broad a selection problem. While they want to limit the number of SKUs they carry, they tend to intimidate

PRODUCTS GO TO MARKET

some suppliers by insisting that, "We don't handle short lines. We like our suppliers to offer complete lines of products." Manufacturers, who do take retailers seriously, try to have a competitive offering in every category.

Some retailers are further narrowing their selections. In the Southeast, an executive said, "We decided to eliminate confusion. Give customers too many choices and they wind up so confused they walk out without buying anything. Why stock five brands of chrome polish? The customers can't make up their minds. We resolved to carry just one product in each category."

But how does the chain decide which brand to stock? "We try them. We give samples to our personnel and get their evaluations. We pick the brand which our people say works best. The advantage of this approach is that our salesmen can truthfully say, 'This works. I've used it myself.'"

That approach may be fine for the automotive chain store with a high ratio of salespeople per customer. However, in the majority of outlets, customers can not depend on finding a salesman to answer questions. On this point, one chain executive says, "Our sales people are normally at the back of the store behind the parts counter. Recently, we've had personnel in the front of some of our stores because we are re-merchandising all of our stores. Just being there, they could answer many questions about automotive chemicals, and our sales increased noticeably."

But the reality of the automotive products retailing world is that retailers are not going to hire more salespeople just to push chemicals. Chemicals have to sell themselves, based upon their packaging and consumer advertising. However, retailers are doing some things that will help increase appearance chemicals sales. They are redesigning their stores to make them more attractive to women shoppers.

One retailer says, "Women are becoming more important cus-

tomers in the aftermarket, particularly for chemical items. We believe that until now women have been put off by the male dominated environments of typical parts stores. We suspect that one of the reasons women patronize certain auto stores is that they have more of the open appearance which women associate with grocery stores."

Vinyl Cleaners

For all practical purposes, the vinyl protectant and cleaner category is the Armor All, Irvine, CA, category. Armor All claims to hold 90% of this market. The company's president estimates that total retail sales of this category are about \$175 million per year, making this easily the largest segment of the appearance chemical business.

No competitor or retailer disputes Armor All's claims. Retailers appear awed by its steady growth. A manufacturers' rep (who sells a directly competitive product) says, "Armor All's sales increases are staggering."

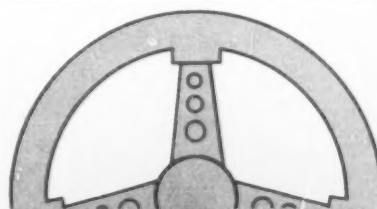
How does Armor All do it, especially with the trend to velour upholstery in cars? The company countered that assault with emphasis on the other "Armor All-able" surfaces such as tires, black rubber and vinyl surfaces, bumpers, louvers, and spoilers. In addition, consumers use the product for household purposes.

Accessories

Retail of accessories sales are benefiting from favorable economic conditions and demographic trends, plus a general upgrade of consumer tastes. And the news is as good for simple dress-up items as it is for high ticket electronics.

Electronic Accessories

There is good news on the electronic accessory front. American car owners continue to want the latest and best in car sound, radar detectors, cruise control, and electronic security systems. Electronics manufacturers continue to raise price points by introducing products which are higher in quality, easier to install, and feature enhancements. And, they



ACCESSORIES INTO 1990

Look for a constant, steady growth in sales of automotive accessories through the 1990s. Total sales then should reach nine billion dollars.

Year	Sales
'84	\$4,891,000
'85	6,985,000
'86	7,040,000
'87	7,331,000
'88	7,967,000
'89	8,287,000
'90	8,721,000

Source: Frost & Sullivan

are selling. But there are a few clouds in the otherwise sunny picture.

Manufacturers and retailers of aftermarket car sound items have to contend with more aggressive policies from the automobile manufacturers. The car makers are selling more vehicles with sophisticated sound systems and making changes which make it more difficult to remove OE units for replacement with aftermarket upgrades. However, retailers who are committed to the DIY sound business are finding ways to deal with the installation problem.

There are no installation problems with radar detectors, and, across the U.S., sales have been increasing rapidly in response to manufacturers' advertising and product innovations. However, demand for radar detectors tends to be somewhat regionalized: sales are highest in the states and municipalities which are most vigorous in enforcing highway speed laws.

Manufacturers of aftermarket cruise controls have a "moving target" problem. Each year they strive to find ways to make DIY

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installation easier. And each year the car makers incorporate changes which make installation more difficult such as downsized engine compartments, for example. But, cruise control manufacturers change too, designing easier DIY hook-ups, better packaging, and instructions (some on video). They are also encouraging chain stores to get a larger share of the business by offering installation services.

Demand for electronic security systems, like radar detectors, also tends to be regionalized, or more precisely, urbanized. But, where sales are good, they are very good indeed. An executive of one Southern chain says, "Our sales of these items zoomed when we opened stores in metropolitan Houston. We didn't do much business in anti-theft devices in the smaller, rural towns."

Car Sound

Demand for car sound is in no danger of decreasing. Americans appear to have an insatiable appetite for high quality sound items. So this isn't a "mature" market yet. In fact, retailers of auto parts and accessories report excellent sales of DIY-type radios, speakers, and players. For these retailers, there have been fairly steady increases in units for the past five years plus increases resulting from a movement to higher price merchandise. Customers for car audio have responded well to a succession of innovations: Dolby, graphic equalizers, auto reverse, etc.

The problem from the standpoint of aftermarket retailers is that car manufacturers are becoming more aggressive than ever about grabbing the business for their OE receivers and players. More and more, cars are fully equipped with sophisticated sound systems. People anxious to take delivery are inclined to accept such systems with the car, particularly if they are of good quality and made available at attractive prices. Also, to the great distress of CASA (the Car Audio Specialists Association), the car makers have not renewed the

agreements on "delete options".

A "delete option" gives the new car purchaser the ability to order the car from the factory without a radio in it. This makes it far easier for the customer to have a sound system of his choice such as an aftermarket brand purchased from the car dealer, an automotive audio specialist, or a chain store.

The elimination of the delete option is of greater concern to manufacturers of higher priced sound systems than to manufacturers of lower priced, DIY-oriented systems. This is because the customers for the less expensive products tend to purchase them for cars which are three to four years old and older. In such cases there is a strong probability that the DIY customer will have to remove an existing unit to install his aftermarket "upgrade". Therefore, delete options at OE level are of no consequence to these customers.

On the other hand, buyers of used cars may be less inclined to install aftermarket upgrades in the future if the used car already has a pretty good stereo system. As recently as 1980, 48.3% of the new cars sold had only manual AM or AM/FM units installed at the factory. This meant good potential for selling DIY car stereos in 1982-85 as 1980 cars moved into the hands of audio-conscious second owners.

Therefore, although there continues to be good prospects for aftermarket audio near term (at least for manufacturers and retailers of DIY-oriented systems), there is growing concern among retailers about the future. As the 1990s approach, there may be less incentive for DIYers to rip out standard OE audio to install aftermarket stereos. Moreover, OE designers have (whether deliberately or not) made it increasingly difficult to install aftermarket upgrades. There is now more size difference between OE and aftermarket radios and players than there used to be. This means neat installation is hard without using an adapter kit, which includes spacer panels for

the dashboard.

Of even greater concern are changes in OE wiring practices. On some models it may be necessary to remove the steering wheel to install a radio because the wires for the audio system are in the car's steering column. Finally, OE designers have been moving toward the integration of the car's entertainment electronics with the computer command electronics.

One retailer committed to the DIY sound business says, "There are obstacles but they can be dealt with. We try to have answers for the DIYers. We don't just sell a player and a couple of speakers. We'll explain the need for having an adapter kit in order to properly fit the space in the dash. In some cases, we may recommend a harness kit to simplify the hook-up to the car's wires."

So, properly approached, what seems like an obstacle can be turned into a selling opportunity.

Radar Detectors

It seems that the fabulous radar detector market is still growing. Some leading manufacturers think that about a million units were sold in 1985 and one says that unit sales for 1986 were around 1,250,000.

What accounts for the growth of radar detector sales? More consumer interest and awareness of the category stimulated by consumer advertising—that's what.

In other words, more and more car owners like the idea of owning a device which will give them timely warning that they are approaching—or entering—a highway speed trap. Since radar detectors are frowned on by law enforcement officials and are illegal in some localities, car owners have a preference for detectors which are inconspicuous in the car and small enough to be placed in a pocket or glove compartment when the driver leaves the car.

Product improvements have also stimulated the market. These include: LED warning lights, "dark mode" warnings, and better filters (for dealing with extraneous sources of micro-

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wave activity that might set off a false signal).

As with the demand for products, the number of producers has increased. There were only eight producers in 1982, while now there are about 18. And the stage is set for the entrance of off-shore producers of micro-wave products. The rise in the yen may deter the Japanese a little; it probably will not deter the Koreans and Taiwanese.

Cruise Controls

The cruise control business continues to grow at better than 10% per year. Each year more people order cruise control with their new car purchases or have them installed after the sale. The not so good news (for retailers) is that their share of the business has leveled off.

Manufacturers of cruise controls design models for installation by car dealers (and car dealer expeditors). Aftermarket models are sold via retailer installers (including electronics specialists) and auto parts retailers. The items are identical except for some cosmetic features.

Cruise controls sell fairly well among auto parts chains which have installation facilities. But sales are lower among automotive chains which are strictly DIY-oriented. One chain store executive says, "We haven't been too happy with the sales and returns. The fact is, a lot of car owners find it harder to install these things than they imagined. When they give up, they return the items as 'defective'. As a result, we are thinking of phasing out of the business."

Electronic Security

There are differences of opinion on the size of the electronic security device market. Suffice to say that this is a big market, at least \$50-55 million as of 1986. It continues to grow rapidly because of theft problems in urban areas, more consumer awareness of the product, attractive new features (including "pagers" which alert you to tampering with your car while you are away from it) and importantly, design

improvements which are making it easier for DIYers to do their own installation.

There are other reasons, too. Michigan has joined New York, Massachusetts, and Illinois in requiring insurance companies to offer a discount ranging from 5% to 20% on car theft insurance for those car owners who have installed security systems. The Vehicle Security Association is calling for similar laws in other states. And, from 1987 onward, car makers will have to provide an OE security system or stamp 14 different parts of each car with identification numbers.

The result is a booming car security market.

And, it's a big market. Experts estimate that only 4% of cars on the road today have security systems already. This could mean that the sales of such systems could grow by 20-30% over the next five years. Of course, many consumers get their systems installed when they buy the car new. As much as 15-20% of the security system market is presently held by new car dealers. But that leaves 80-85% of the market in the aftermarket.

Price points have a wide range. One industry leader has products at price points of \$29.95 to \$159. At the lower end DIYers can buy a key-type system. Installation is not difficult but it requires drilling a hole. A keyless system sells for around \$70, while silent paging systems start at around \$90. Installation of these higher priced systems is actually easier than that of the key-type system.

Fashion's Hot, Too

Vehicle owners are spending more to maintain and enhance vehicle appearance using seat covers, car covers, and front-end masks—also called "sports car snoods" and "car bras".

Increasingly, these soft goods items are becoming a fashion business. Some retailers say that this reflects women's growing importance in the aftermarket. They claim young, single women are the fastest growing category of car owners. Such women are

PROFILE OF THE CAR SEAT COVER MARKET

PRODUCT TYPE	PRICE POINTS
Genuine sheepskin	
Made to measure	\$250-350 per seat
Double cap	\$129 per seat
Super fit (stretch back)	\$59 per seat
To measure fabrics	\$100-200 per set
Universal fabrics	
High end, high style	\$49-59 per set
High end	\$39-49 per set
Upper middle	\$29-39 per set
Lower middle	\$19-29 per set
Lower	Under \$19 per set

Source: The Lindsey-Kaufman Co.

fashion conscious about their cars as they are their wardrobes. In addition, women make the decisions on purchases of seat covers for the family car, some retailers say.

Seat Covers

In the big, rapidly growing (between 10% and 20% annually) car seat cover business, vehicle owners are responding to smartly styled textile covers priced at \$30, \$40, and even \$50 per set. A large amount of movement takes place at under \$20 per set and there is a diminishing market for nylon covers priced at under \$10 per set. Manufacturers and retailers of car seat covers are in general agreement on these market trend points:

- Sales of ready made seat covers were in the doldrums during the 1960s when low interest rates encouraged frequent trade-ins. Many consumers traded their cars before their upholstery became worn or unsightly.
- Demand for seat covers picked up in the middle and late 1970s as a result of inflation, higher

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interest rates, and the trend to keep cars longer.

- Interest in seat covers as fashion items—things to enhance the car's appearance, shot up sharply after 1980 with the introduction of high priced, imported sheepskin seat covers.
- Sensing that car owners were willing to pay a higher price for a quality look, manufacturers introduced highly styled seat covers made of a variety of fabrics including nylon pile, knits and sophisticated woven tweeds, and velours.
- In addition to increasing unit sales, car owners are stepping up to higher price points.

Manufacturers do not agree on market size, with "absolute" figures ranging from \$250 million to \$500 million retail. And there are disagreements about strengths of sales at various price points.

Customer motivation appears to vary by price point. Retailers believe that the buyers of \$9.95 per set items buy them to deal with problems like stained or torn upholstery in older vehicles. At prices of \$20 per set and above, there is more interest in protecting good upholstery and giving a fresh, "new car look" to a newer car.

New car buyers are important consumers of high end seat covers. They wish to protect the car upholstery until the trade-in time (perhaps in four or five years). In the meantime, these customers want to enjoy a decent looking car interior.

As a result, there is a lot of interest in seat covers with an "original equipment look". Alternatively, some owners seek chic styling not available in OE upholstery for their car make such as "racing stripes" associated with imported sports cars or the "saddle blanket" plaids and checks of upscale pick-ups and 4x4s. Seat covers offer exciting possibilities for individualizing car interiors.

Are all automotive retailers successful in selling seat covers? No. An executive of one fast

growing chain says, "We are not getting the ROI and the sales per square foot that we want. Why not? Probably because the business is going to retailers who devote more space than we do to seat covers."

What does it take to sell car seat covers? At the retail level, manufacturers say it takes:

- The willingness to stock the full range of styles, colors, and sizes required by car owners.
- The willingness to devote sufficient space to display the full line.
- Consistent advertising—the greater the frequency the better.
- An understanding of local needs and tastes, including the types of vehicles registered in the marketplace.

Many retailers are finding it worthwhile to increase the space they offer seat covers; some have doubled and quadrupled the product space during the past few years. And the business does not require an enormous amount of space. Retailers can set up a seat cover section in eight to 12 feet of space.

Car Covers

Car covers originated when a shower curtain maker improvised a cover for his car to protect it from dust and chips from a nearby sandblasting operation. A store buyer saw the covered car and the product category was born. That company's sales reached 14,000 the first year covers were offered; now it sells hundreds of thousands annually. And, now there are other suppliers as well.

Car covers are made of a variety of materials including clear plastic, nylon, breathable polyester/cotton combinations, and 100% cotton.

The car cover business is large (retail sales estimated at more than \$30 million) and growing at a good 10-15% per year. One of the leading manufacturers, believes that one reason for large increases in sales is a trend toward apartment living. "We have more people who don't have garages but want to protect their

cars' finishes while parked overnight," a spokesman says. And, in fact, some consumers also purchase covers to protect their cars from dust near their work places.

Car owners buy car covers for different reasons around the country. Customers in arid Western states seek protection against dust when the car is parked outside. A Minnesota retailer says, "We have customers for clear plastic covers (they are protection against rain and snow) and we sell a lot of covers to people who want dust protection for cars stored away for the winter in garages. These might be owners of 1950s foreign sports cars or special interest cars of the 1960s—vehicles used only in the milder seasons."

There are differences among car covers in terms of fit and type of material. The majority of the covers sold by volume retailers are "universal": three to six SKUs can provide up to 95% coverage of applications.

Front End Masks

Demand for front end masks is increasing. A chain store buyer says, "They are not just for Yuppies anymore." Until recently, these products were associated with the import or sports car look. Now, older middle class owners of domestic cars are finding practical reasons to buy them such as the increase in production cars featuring low slung, aerodynamic styling. Sports car "fronts", no longer restricted to race cars, are found on mass market domestic and imported sedans. Consequently, these cars are more vulnerable to the sand and gravel kicked up by highway traffic.

The front end mask is one item on which a close fit is particularly important. The "one size fits all" approach doesn't work. Designs must take into consideration placement and sizes of headlights. The requirement for a long list of SKUs has restricted the number of potential suppliers.

The same favorable trends that are increasing sales of elec-

Hard Parts

The term "hard parts" is somewhat ambiguous. For example, some marketers reserve the term "hard parts" for hard-to-install items that are generally installed by professionals—things like engine parts. To some marketers, such fast turnover, DIY-oriented items as spark plugs, air filters, and wiper blades are defined as "merchandising" parts. Alternators and water pumps are called by some, "bolt-on parts". Some marketers call exhaust system parts and shock absorbers "quick change parts", because they don't take long to install. Generally, however, hard parts can be described as items car owners *must* replace as opposed to optional things such as accessories, appearance chemicals, and the like.

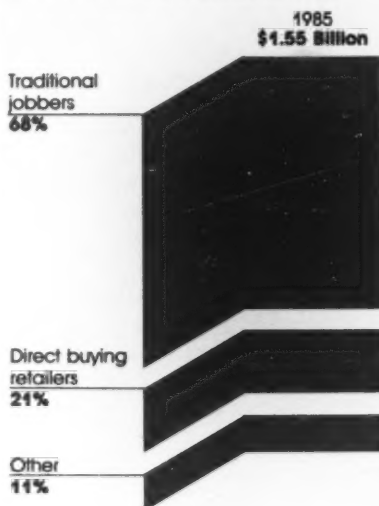
Five Hard Part Categories

RELATIVE SALES PROSPECTS FOR IGNITION/WIRE ITEMS

Declining Unit Sales

- Point sets
- Condensers
- Some voltage regulators (because of movement to electronic VR)

Estimated retail sales (\$ billions) and estimated share by channel for 1985.



- Sales by 1990: **\$1.7 Billion**
- Estimated DIY percentage: **48%**
- Overall growth rate 1980-90:
In current dollars, **1.9%**
In constant dollars, **-0.5% to -1.0%**

The big, complex *ignition parts, wire & cable* category provides examples of growth via higher priced, higher value products (e.g., distributor caps) and also new product categories (e.g., electronic control modules and sensors).

tors. Retailers who are stocking radiators and letting consumers know that they have them are finding big sales and profits.

The *ride control* category provides several examples of extracting more dollars per driver; the shift from shock absorbers to struts and from conventional shocks and struts to higher value, gas pressurized versions.

The *exhaust system products* category provides an example of how marketers can find growth by taking advantage of an under-exploited, big ticket segment of a category. In this case, the opportunity is in catalytic converters; a segment of the market that previously was left to car dealers because of 50,000 mile warranties.

In remanufactured parts retailers are finding that suppliers are upgrading their lines and in some cases offering two lines of parts, which allows them the opportunity to sell with more confidence.

Now, let's examine the five categories in detail.

Ignition Parts, Wire, And Cable

This is one of the largest categories in the aftermarket (retail sales for 1986 were about \$1.7 billion) and one of the most complex in terms of trends by product line within the category, and trends by channel of distribution.

For the category as a whole, the expectations are for very slow growth. A recent Frost & Sullivan study estimates that retail sales for ignition parts, wire, and cable will reach \$1.7 billion in 1990; the growth rate for the 1980-90 period is 1.9% per year in current dollars. Meaning that overall, the category is expected to decline in terms of constant 1980 dollars.

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One manufacturer, which has been tracking the tune-up market for many years now, recently reported that "the DIY trend—virtually level for nearly a decade—began its downward course in late 1983." The company's statistics show that this trend has continued, as DIY installation has "dropped from 41% in 1983 to 38% in 1985."

These numbers are a bit lower than those produced in *Automotive Marketing's* benchmark DIY studies published in 1984, 1985, 1986, and 1987 (and actually made in 1983, 1984, 1985, and 1986). However, even these figures confirm this trend. In 1984, 59% of those who purchased and installed automotive products—DIYers—did tune-up work. In 1985 this number had slipped to 51%, and it had slipped further, to 44%, in 1986.

The main reason for slow growth in real terms is the movement from electromechanical ignition using points and condensers to electronic ignition. However, growth continues for many items that have not been displaced by electronic ignition. These include caps, rotors, coils, ignition wire sets, battery cables, temperature sending units, and oil pressure sending units. In addition, there are opportunities for growth from newer items in the system, such as electronic ignition modules and the reluctors, sensors, and pick-ups incorporated in post-1975 distributor caps. Marketers of ignition products are finding growth opportunities in items that cross over into other functional areas. For example, temperature sensors that are part of the emissions control system play a role in the operation of the electronic ignition system. Some manufacturers of ignition products are introducing lines of temperature sensors.

Finally, an important point about the ignition parts business is that it illustrates the fact that volume retailers are finding large opportunities in value-added products—like high performance spark plugs, caps, rotors, and ignition wire sets. These

items demand higher prices because they are product upgrades rather than necessities at the basic level.

One manufacturing executive observes that dollar sales of this industry have been sustained by a shift to higher-cost, higher value products. "For example, the retail price on a distributor cap for a 1972 Chevrolet might be \$6. In contrast, the price for a 1980 Chevrolet distributor cap might be \$12. The difference reflects the cost increases mandated by more demanding specifications. These include more problems relating to emission standards, the need for more voltage resistance, and the need to cope with changes in fuel standards."

And another manufacturer says, "The need to use more costly material is one factor increasing prices. For example, there is more use for silicone insulated wire rather than hypalon. On the other hand, the shift to four-cylinder engines means that only five wires are used versus nine for larger engines."

"Another factor increasing costs and prices is a move to larger items. For example, distributor caps on some late model cars are 50% larger than those used on earlier models. This is because the new, higher-energy models need to have more space between electrodes; the smaller the distance, the greater the danger of arcing."

DIY Sales

Installation of ignition parts still rates high among DIY activities even though purchase levels among DIYers have dropped as cars have become complex. The 1984 *Automotive Marketing Vehicle Maintainer Study* indicates that 9% of all DIYers purchased electronic ignition modules over the course of 1983. The 1987 *Consumer Automotive Repair Study* indicates, however, a drop to 4.4% in the numbers of DIYers who bought the same types of modules in 1986.

However, despite the movement to electronic ignition, some car owners—especially those with older cars—are still doing

their own installation of ignition parts, including caps, rotors, coils, ignition wire, and modules. Based upon consumer surveys, some ignition parts manufacturers estimate that nearly 48% of sales of ignition parts, wire, and cable are installed by DIYers.

Does that mean that volume retailers have 48% of the business versus 52% for traditional outlets? No. There are many cross-overs by distribution channel. Thus, many wholesalers are getting substantial portions (up to 50%) of their ignition business from DIYers. And on the other hand, many retailers obtain a substantial amount of ignition business from professional installers. In addition, the situation is further complicated because some chain stores obtain 25% to 33% of their ignition parts business on an installed basis.

It is interesting to note that some consumer surveys indicate that many DIYers prefer to buy their ignition parts from wholesalers. Why? We can speculate that it is because the jobbers are more likely to be of assistance on selection and tips about installation.

The most recent estimated sales breakdown of ignition parts, wire, and cable is as follows:

- Professional installers and DIY sales through jobbers: 68%.
- Over-the-counter sales and installed sales by direct buying retailers: 21%.
- Other outlets, including car dealers and tune-up specialists: 11%.

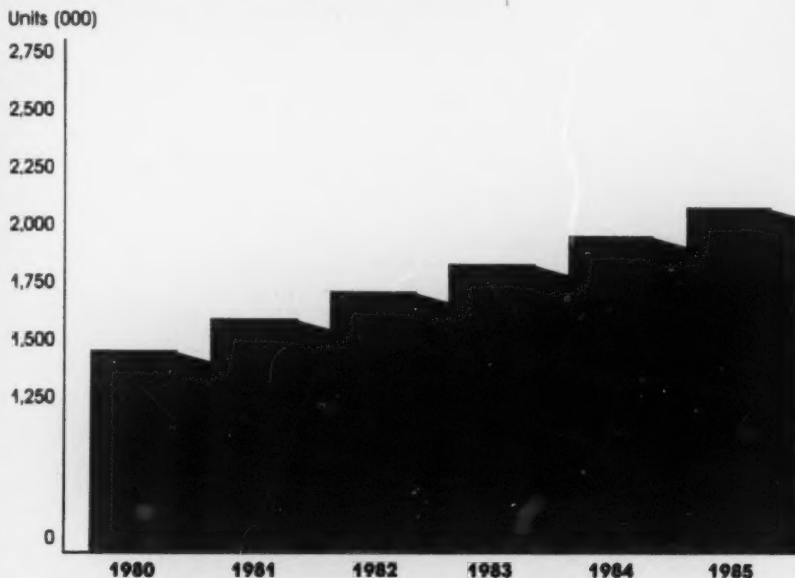
Despite the fact that DIYers prefer to deal with jobbers on ignition products, there seems to be little doubt that retailers are gaining market share at the expense of the traditional market. There appear to be three important reasons for this:

- Sheer growth in number of outlets (especially for automotive chain stores backed by billion-dollar corporations).
- Faster growth in sales per outlet, based in part on the price advantage of the chain stores and, in part, on a willingness to

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THE MARKET FOR REPLACEMENT RADIATORS

Estimated Annual Unit Sales of New Radiators



- Estimated failures per year: 12-14 million
- Estimated used/recored replacements per year: 5-6 million
- Estimated new replacements per year: 2-2.5 million

Source: Modine Auto-Cool

increase inventories to provide greater coverage of applications.

- Increasing penetration of the professional installer market by aggressive chain stores.

Proving this last point, one ignition manufacturer says, "Chain stores are rapidly increasing their sales of 'installer items' such as ignition switches, temperature sending units, and oil pressure sending units. In order to replace ignition switches on many models, it is necessary to remove the steering wheel. We believe that not one in 20 DIYers will attempt this. Therefore, it is clear that such items are purchased by professionals."

Shifts In Composition

Some important shifts appear to be taking place in the composition of the volume retail market for ignition and wire products.

Essentially, it is costing retailers more to stay in this game. It is becoming harder and harder to

compete on the basis of short lines. Therefore, there seems to be a tendency for automotive chain stores to gain share of this market at the expense of the less committed discount and department stores. The automotive chain stores tend to have the advantages associated with jobber-retailers—full lines and knowledgeable sales people.

Some manufacturers believe that the least committed retailers are at the point of discontinuing their offerings of ignition parts. In any event, some of the committed chains appear to be finding rapid growth via gains in market share.

Regarding industry growth prospects, a manufacturer says, "It is true that some types of ignition parts are being phased out and that overall growth is slow now. And, in fact, this market hasn't bottomed out yet. Meaning, that for a few years to come, the climbs from obsoleted products will not be offset by gains

from new products. However, the changes in automotive technology are going to result in new replacement market opportunities. For instance, we see new opportunities coming for sensors of several descriptions—engine speed, engine coolant temperature, ambient air temperature, and vacuum condition. These are in use now. They are used to feed information to the car's central computer. The replacement market for these devices will develop over the next three years."

The Radiator Market

The cooling system market includes such items of long standing interest to volume retailers as anti-freeze/coolant, belts and hose, thermostats, and water pumps. Demand for cooling system products during the past five years has tended to increase faster than the average rates for the automotive aftermarket. This has to do mainly with an increase in underhood heat in newer cars. This factor alone should cause automotive retailers to be interested in cooling system products. And now retailers have another very significant reason to be interested—new opportunities in sales and installation of complete new radiators.

Not too long ago volume retailers (and parts jobbers) had to turn away customers for radiators. A motorist with a faulty radiator could:

- Hope that it could be repaired by a radiator specialist.
- Purchase a used radiator from an automotive dismantler (junk yard).
- Purchase a rebuilt ("recored") radiator either from a radiator specialist or from a garage who got it from a radiator specialist.
- Purchase, at a very high price, an OE radiator from the car dealer or radiator specialist.

Today, DIYers (and installers) have the option of purchasing complete, new radiators either from parts jobbers or, increasingly, from volume retailers. The latter include both retailers with installation capabilities, like Pep Boys, and dry stores such as Auto Shack and Auto Works.

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Two factors have been responsible for the change in this market. One, shifts in OEM design from repairable units built with brass tanks and copper cores to non-repairable units built with plastic tanks and aluminum cores. This has reduced the number of car owners who can exercise the option of having their radiators repaired and put back in the car.

Second, some manufacturers of automotive radiators made a commitment to manufacturing efficient and economical units for the replacement market. They also committed themselves to application coverage for most of the nation's fleet of cars and trucks with the lowest possible numbers of SKUs. And, manufacturers have also made a commitment to developing distribution centers and specialty distributors (feeders) to provide prompt delivery to volume retailers and parts jobbers.

The trend to retail sales of complete new units is significant for these reasons:

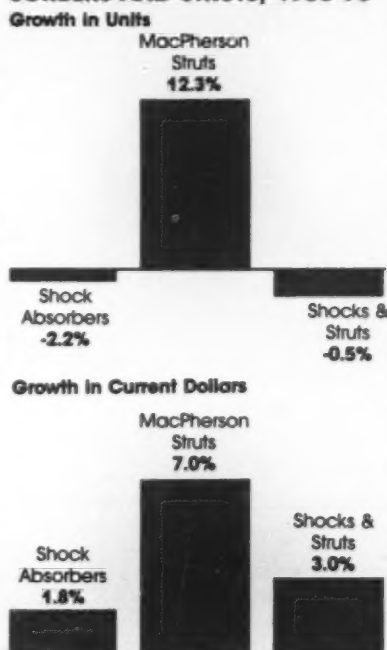
- Complete radiators are a big ticket item. Retail prices for the part alone are in the range of \$100-150. As such, they represent an important means for extracting more dollars per driver.
- Retailers' margins are in the range of 30-40%; therefore radiators are good sources for gross profit dollars as well as gross sales dollars.
- The radiator customer is, of course, a prospect for other cooling system items.
- Compared to most aftermarket products, growth prospects are excellent.

On the last point, unit sales increases for complete, new radiators averaged 10% per year during 1980-84. For the industry as a whole, there was very little growth in unit sales during 1985 as a consequence of unusually mild weather. Sales picked up somewhat the following year. However, volume retailers experienced more growth in the business because of increases in the number of their outlets and gains

MORE DOLLARS PER DRIVER IN THE RIDE CONTROL MARKET

Period	Change		Impact
	From	To	
Late 1970s	Conventional Shocks	"Mac" Struts	Retail Prices Up 400%
Early 1980s	Conventional Shocks	Twin Tube Gas Shocks	Retail Prices Up 30%
Mid 1980s	Conventional Car Shocks	RV Shocks	Retail Prices Up 100%
Mid-Late 1980s	Conventional Struts	Gas Struts	Retail Prices Up 30%
Late 1980s	Conventional Shocks & Suspension	"Smart Suspensions" (Electronically Controlled)	Retail Prices Up 300%

PROJECTED GROWTH RATES IN RETAIL SALES FOR SHOCK ABSORBERS AND STRUTS, 1983-90



in market share.

The key factor in sales of radiators by chain stores and jobbers is awareness. Customers have to know that this product is available. They are not accustomed to buying radiators from parts stores. So, as in other developing product categories, advertising

and promotion are important. So is training the retail sales personnel who must guide the consumer through a purchase.

Ride Controls

In this category the focus is on two important categories of ride control: shock absorbers and MacPherson struts. The sales curves for these two categories are going in opposite directions. The outlook is for declining unit sales of shock absorbers and for rapidly increasing sales of MacPherson struts. Leading shock absorber manufacturers have moved into production of struts. However, because wholesale prices of struts are falling with increases in volume, manufacturers' gains on sales of struts are not offsetting their declines in sales of shock absorbers. So, overall, combined retail sales of shocks and struts are expected to increase at a modest 3% per year in current dollars.

What are manufacturers and retailers doing about this situation? Well, the alert companies are:

- Fighting harder than ever for sales gains via market share increases.
- Targeting growth segments of the vehicle market—such as performance cars, light trucks, and 4-wheel drive vehicles.
- Introducing premium priced, high value products, like gas shocks, heavy duty shocks for RVs, and gas struts.

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In a sense the movement of manufacturers into production of struts represented a shift to higher value products. However, that has been more a matter of defensive reaction to changes in the market rather than an innovative strategy.

In contrast, the introduction of gas pressurized struts has been a well thought out strategy for upgrading sales. Therefore, the ride control industry provides an excellent example of more dollars per driver.

MacPherson struts provide both a suspension function and a shock absorber function. Typically, most designs for late model, front wheel drive cars call for sets of struts on the front axle and shock absorbers on the rear axle. Therefore, there continues to be a role for shock absorbers. What is significant in terms of retail sales is that retail prices for a pair of conventional struts can be four times that of a pair of shocks.

Changes in DIY Practice

When MacPherson struts were first introduced, manufacturers believed that the change represented good news for service dealers and bad news for DIY-oriented retailers. The word was that struts were very difficult to install without special equipment, in particular, spring compressors. As a result, volume retailers were expected to lose share of the ride control market.

In fact, the volume retailers with service bays found large sales increase in installing struts. In addition, DIYers have shown great willingness to do strut installation. One thing that has helped the DIY strut market has been the introduction of modestly priced spring compressors for DIY application.

Expensive monotube gas shocks have been on the market for years. However, very high manufacturing costs and retail prices limited the market to applications on very expensive cars—like Mercedes and BMW.

The development of lower-cost twin tube gas shocks in the early 1980s has been very significant in broadening the market for su-

perior ride control products. Typically, gas pressurized twin tube shocks retail for about 30% more than conventional shocks. That's not too high a premium for quality-minded car owners.

Gas Shocks

One manufacturing executive observes that, "Volume retailers have done very well on gas shocks, particularly in comparison to jobbers. They have been more aggressive than the jobber in advertising these items and in training their sales people to recommend them in favor of conventional shocks."

It helps that there has been good word-of-mouth advertising for gas shocks based upon customer satisfaction. As we were told repeatedly, "Gas shocks provide a demonstrably superior ride. You can feel the difference."

It also seems to help that the current generation of Americans appears to be especially quality minded in comparison to previous generations. "They are fussy and demanding—but they are willing to pay more for really good products."

But, retailers have to be prepared to sell them. This means having the products, displaying it, making effective use of point of sale material, training the sales people to suggest the sale—and backing offers with systematic advertising.

Conventional shocks have a life expectancy of 20-30,000 miles and are replaced, typically, at about 34,000 miles. One of the interesting things about quality-minded consumers is that they don't necessarily wait until their conventional shocks are totally worn out before replacing them with gas shocks. It is not merely a replacement sale but an upgrade sale.

Owners of 4-wheel-drive vehicles appear to be especially disposed to replace their conventional shocks with upgrade shocks and sometimes purchase them for new vehicles, scrapping the OE shocks.

Typically, upgrade shocks for 4-wheel-drive and other recreational vehicles are priced up to

100% more than conventional shocks.

In the strut market, gas pressurized struts are now offered as an upgrade on conventional struts. As in the case of gas shocks, they cost about 30% more than the standard struts and they appear destined to take an increasing share of their respective market.

There seems to be no limit to the possibilities for selling upgraded ride control products to performance-minded vehicle owners. What's next? Late in 1986, shock absorbers that use electronic sensors to adjust the ride were introduced to the aftermarket.

Exhaust Systems

The principal items in the exhaust system category are mufflers and pipes. Retail sales of these items alone exceeded \$2 billion in 1986. However, the market for these products is mature; retail sales in constant dollars will be barely more than 1% per year during the remainder of the 1980s.

So, what do manufacturers and marketers of exhaust products do to find more growth? Make better, higher value mufflers?

The market leader, Walker, introduced a markedly improved muffler in 1985 that didn't cost consumers any more than the earlier models. However, to obtain more dollars per car, the company found another replacement market to develop—the catalytic convertor, in a different part of the exhaust system.

As most aftermarket participants know, when the U.S. government mandated that car makers install catalytic converters on their vehicle exhaust systems (as the most effective means of reducing vehicle emissions), it also required the car makers to offer warranties of five years or 50,000 miles on their catalytic converters.

For this reason, participants in the aftermarket have tended to regard catalytic converters as strictly a car dealer item. Taking

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a longer view, Walker considered that there is now a population of older cars and trucks (the 1975 to 1980 model-years) which constitutes a substantial potential market for replacement units.

The Potential Market

How large a market? Precise estimates are not available at this time; at a guess, about 500,000 units per year. Moreover, it represents a bigger ticket opportunity for vendors than sales of mufflers, tail pipes, and engine pipes.

Walker saw an opportunity for universal, replacement market catalytic converters that can be priced below the OE-type units sold via car dealers. The company entered this market in the Fall of 1984. Retail prices for its replacement catalytic converter are "under \$100 per unit, versus \$200 to \$500 for original equipment type units."

Are the aftermarket units identical with OE units? No, they are not. One reason that they are cheaper is that they are universal, meaning that they are designed for many makes and models of vehicles rather than designed for individual makes and model-years. Also, they are not designed to last as long as the OE units. Let's face it, how many owners of cars that are five, six, and seven years old intend to keep them until they are ten, 11, or 12 years old?

So, as Walker sees it, there is an interesting, growing market for replacement units that are priced well below those of original equipment units. And, this is a plus market for parts wholesalers and retailers, a business that, up to now, they have left strictly to the car dealer channel. Figuring that sales potential is in the range of 400,000 to 600,000 units, and that retail prices are in the range of \$85-95 per unit, annual retail sales could reach \$34-57 million. Estimating more closely at 500,000 units at \$90 each, the retail sales potential is about \$45 million.

But what about installation? Can anybody install converters? What kind of skill and tools are

required? A manufacturer says, "It is no harder to install catalytic converters than mufflers, and DIYers can do it. All that is required for DIY installation are a hack saw and basic wrenches."

How about the motivation and awareness for replacement of faulty converters? Are car owners aware that or when their converters need to be replaced? Also, practically speaking, do they feel compelled to replace worn-out converters?

Will The Car Owner Respond?

Interesting questions. The answers are that these factors can vary across the United States depending upon whether the individual state has periodic mandatory vehicle inspection (PMVI) and how conscientious car owners are about the performance of their vehicles.

There are two reasons owners of older cars should want to replace faulty converters: First, a car with a malfunctioning converter is spewing noxious chemicals into the air; second, a car with a faulty converter can't be properly tuned.

In the first case, the car owner has the motivation of being a good citizen (or at least, not being fined for being a negligent citizen). In the second case, he has the powerful self-interest of driving a smoothly running automobile.

In the states with mandatory vehicle inspections, where the owner of the older car can't get away with driving a car with a faulty converter, there is already a growing market for universal-type replacement converters. Car owners *must* obtain replacements and they are becoming aware that lower-cost units are now available from parts jobbers and volume retailers.

In the states that do not have PMVI, motorists can go for long distances without being aware that their catalytic converters need to be replaced. In order to be absolutely sure that a replacement is needed, it is necessary to insert a probe into the exhaust system. Where mandatory inspection is lacking, the car owner

is likely to become aware that he has a problem with his catalytic converter because he is encountering a problem with his car's performance.

In those states retailers have to promote the awareness of catalytic converter problems. Chain stores that operate service bays can do the inspection themselves if they have invested in gas analyzers. The latter are useful, also, in tune-ups and engine diagnostic work.

Chain stores without service bays have to remind car owners to have their emissions checked, and impress upon the car owners that they have the replacement parts that can be readily installed either by the car owner himself or by a professional installer of his choice.

Chains that sell strictly on an over-the-counter basis might do well to promote sales of catalytic converters on a wholesale basis to professional installers.

Remanufactured Parts

Unit sales prospects for remanufactured parts vary by item. For example, generators are disappearing from the market. On the other hand, unit sales of clutches are increasing because of the underhood heat problems in today's smaller cars. For the longer term, there may be good growth prospects for items new to the parts rebuilding industry. These include turbos, rack and pinion steering, and constant velocity (CV) joints.

For the bulk of the more familiar bolt-on remanufactured parts, the outlook for unit sales is a flat 2% per year growth. However, volume retailers are obtaining much faster growth on these items through market share gains.

On remanufactured as well as new parts, suppliers and retailers are endeavoring to achieve market share gains and better margins by emphasizing higher quality products and lines.

At the retail level, some chains are moving to longer and longer warranties; up to five years in the case of Chief Auto and up to

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THE MARKET FOR REMANUFACTURED PARTS

Items	Sales Trend	Comments
Alternators Starter	Slow growth overall but sales up for chains via market shares.	Arrow introduces premium priced lines.
Generators	Slower growth.	
Clutches	Unit sales up. (Because of heat problems)	Champion introduces new heat resistant clutches.
Brake shoes Calipers Carburetors Master Cylinders Power Steering Components Blower Motors Wiper Motors Smog Pumps Water Pumps Fuel Pumps	Sales up for chains via market share gains.	Chains show interest in selling higher quality remanufactured items. Promoting sales via lengthy warranties.
Turbos Rack & Pinion Steering CV Joints	Relatively new items remanufactured. Growth prospects good.	

seven years for Trak Auto.

That is further than most chains appear to want to go (and further than suppliers think they should go). One retailer has moved from a 90-day warranty to a one-year warranty. To do this, the chain switched to suppliers offering higher quality. A spokesman said, "Our prices and margins haven't changed much, but we can sell these items with more confidence. That's important. Sales people hate to deal with customers on comebacks. Because we have greater confidence in our remanufactured items, we are selling more. And these customers are buying our accessory and chemical items."

Although parts proliferation is a problem, some of the larger chains (including Nationwide and Western Auto) like the idea of having two lines of remanufactured parts; a standard (good) line, and a premium priced (better) line.

One rebuilder recently introduced a premium line with a higher proportion of totally new parts plus a three-year warranty. For \$12 more, retail customers can purchase a lifetime warranty.

Another rebuilder, moving more cautiously on the question of offering multiple quality levels, has its own approach to upgrading. Using one line, rather than two or more, the rebuilder introduced new clutches that use woven fiber facings rather than molded fiber. In addition, copper fibers, which cost only a small percentage more, are included to dissipate heat. The rebuilder also redesigned the clutch packaging, using a four-color box that explains the product and its advantages.

So it seems as if both manufacturers and retailers have realized the value of upgrading their lines. The primary customer concerns with remanufactured parts have to do with quality and warranty. Knowing the details about water pumps, alternators, and starting motors, for example, can lead to more dollars per driver in this category.

Selling hard parts will continue to be a challenge for the retailer, but a challenge that can lead to even better profits from higher value profits. Knowing the market, knowing the product, and knowing what the customer needs are the way to go for the

hard parts retailer.

Special Markets

Besides the broad-category product lines that every aftermarket retailer must stock, there are special markets—markets of owners of particular vehicles like light trucks, off-road-vehicles, performance cars, imported cars, and professional installers—that should be addressed to some degree. Just what that degree should be depends on the area vehicle mix, and the retailer's merchandising plan. Even if the retailer decides not to address these markets, he should consider them.

Light Trucks

Who owns light trucks? Typically he's a male, with a median age of 36 years old—six years younger than the buyer of a full-sized truck. In fact, some automaker representatives call compact pickup trucks "the official youth vehicle" in California.

Otherwise, as reported in several recent studies, the average light truck owner has a household income of \$34,500 a year (slightly below the \$35,600 median household income for all new car buyers); uses the truck as the household's primary vehicle; and has attended at least some college. Most owners drive their light trucks for personal, rather than business, use.

Generally, the light truck owner profile fits the profile of an average DIYer. Moreover, the light truck owner is predisposed to buy aftermarket products. A General Battery Corp. study indicates that 82% of all light truck owners plan to buy some special equipment or an accessory for their vehicle within the next year. So selling to this group is generally easy. And, most of the products they plan to buy are products especially designed for light trucks.

Among the most popular light truck products—products light truck owners themselves mention as being in their future buying plans—are heavy duty shocks, off-road tires, wheels, driving/fog lights, heavy duty springs, lift kits, roll bars, grille

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guards, electric winches, and exhaust headers. There are, however, other products that many light truck owners don't mention, often because they don't know their benefits.

The Mini-Van Owner

In many ways the mini-van owner is a different sort. The mini-van has begun to take the place of the station wagon, and its owner is more like a typical station wagon owner than a light truck owner. Therefore, his wants and needs differ accordingly. *Newsweek's* recent study, *1986 Buyers of New Cars*, reveals some interesting data about these mini-van owners.

Males make up 68% of mini-van owners; 92% of mini-van owners are married. In all, 6% of new car buyers 25-34 years old, 7% of new car buyers 35-54 years old, and 4% of new car buyers over 55 years old bought mini-vans. The median household income of a mini-van owner is \$45,400—notably above that of the typical light truck or passenger car owner household. The mini-van is the principal vehicle in 68% of households with these vehicles.

Most mini-vans are used for getting to and from work—only 11% of their owners reported that their mini-van's principal use is purely pleasure. Finally, 76% of people who bought mini-vans didn't consider buying any other type of vehicle.

The *Newsweek* study also describes the types of people who buy mini-vans. The results were remarkable. The study found that the largest group of mini-van buyers is made up of people who are individualistic in outlook; who are more concerned with what products actually do than the image they present; who are leaders in their professions; and who are self-reliant but careful about their spending, and who are discriminating. In other words, trendsetters, rather than followers, are buying mini-vans.

These findings indicate that there is room for great growth in

sales of this type of vehicle—possibly more than in any other type of vehicles, since the trendsetters, who are buying mini-vans, tend to lead the rest of the population in their buying habits.

"Minis" vs. Truck Owners

Geographic locations of mini-van owners and light truck owners also differ. By area, 14% of new mini-van owners live in the Northeast; 38% in the North Central; 33% in the South; and 15% in the West. By contrast, most light truck owners are in the northern Rocky Mountain States.

Mini-van owners will not buy traditional light truck items. Not for them, the off-road lights, roll bars, gun racks, musical horns, and tool boxes that traditional light truck owners snap up. Yet there are a number of products that mini-van owners will purchase. Generally, they are the same type of products that luxury car or station wagon owners buy. They want functional accessories, things that do a specific job rather than things that go flash in the night. Things like floor mats, fog lights, security devices, and good audio equipment are what mini-van owners want and will buy.

The Jeep Owner

Then, there are the Jeep and similar utility vehicles. Owners of these vehicles are different from mini-van and light truck owners. Still officially "light trucks," these vehicle owners are largely male—American Motors, which makes Jeeps, says 82% of Jeep buyers are male. And their average income is \$79,000 (around the same as the average Mercedes buyer's income), which makes Jeep owners the best heeled of these groups.

Many Jeep owners are not really DIYers—at least conventional blue-collar, low-income DIYers. Any work they do on their vehicles is done strictly for pleasure, and is not apt to be involved, complicated repair work. They get their service and installation work done professionally.

Indeed, as most of them are professionals themselves, they prefer to have other professionals handle technical jobs.

They seek a certain automotive style that projects a rough, macho look. But they really aren't frontier type people; they're doctors rather than farmers. One owner of 21 Texas car dealerships, including some that sell Jeeps and similar vehicles, was recently quoted in *Forbes* as saying, "I'd guess 90% to 95% of the ones we sell never get off the road." And, utility vehicle owners pay big money for that style, as much as \$24,000 for a fully-equipped top-of-the-line Jeep Grand Wagoneer. Production dropped in 1986, however, when 187,917 Jeeps were made, down from the 229,475 made in 1985.

Jeeps, and similar vehicles, are rarely primary household vehicles. Their owners rarely drive them back and forth to work. They're fun vehicles, used to tool around on weekend afternoons. President Reagan has two he drives around on his California ranch; Ex-President Ford drives around Palm Springs, CA, in his.

That's not to say that Jeep owners don't patronize the aftermarket. People who are as conscious of making a statement about themselves through their vehicles as Jeep owners are tend to customize their vehicles. They want fancy paint jobs, pinstriping, and extra lights outside, while inside they put on fancy seat covers (nothing but top-of-the-line is good enough for them), good AM/FM/Cassette stereos and speakers, on-board computers, and—would you believe—even air conditioning.

Selling to this group means stocking and merchandising top-of-the-line products; nothing but the best in accessories will do for this crowd.

Imported Cars

Frost & Sullivan's most recent study of the Import Car Aftermarket estimated that this market reached \$8.4 billion in retail sales of parts, accessories, batteries, and chemicals in 1983. The

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marketing research firm further estimated this market reached \$11.3 billion in 1985, and will keep growing through the 1980s, reaching nearly \$24 billion in 1990.

According to that report, the prospects for chain stores retailing import car parts and accessories are good:

- Mass merchandisers and automotive chain stores accounted for about 20% of the total retail import car parts and accessories market in 1981 and are likely to account for nearly 25% by 1990.
- Retail stores are the major outlets for universal-type products used by import cars: batteries, anti-freeze, oil, window washer fluid, car waxes, etc. Even the car owners who are oriented to buying OE parts from car dealers buy these items from chain stores.
- Chain stores are also important outlets for automotive accessories purchased by import car owners. However, these stores have lagged in sales of replacement parts for import car applications, accounting for less than 10% of sales.
- But, during the second half of the 1980s, these stores will achieve very rapid gains in market share of the import car parts business, rising to more than 15% of the market by 1990. The chief reason is greater attention to stocking, displaying, and promoting parts-for-imports.

In short, Frost & Sullivan identified chain stores as the fastest growing participants in this fast growth segment of the total aftermarket. Has the market developed along the lines that Frost & Sullivan predicted? Apparently it has.

Good For Some, Not For Others

At one parts importing and distributing company which concentrates on the chain store market for import car replacement parts, a vice president says, "The chain store market for import car parts has grown phenomenally. Our sales to this channel in-

creased 500% from 1981." Moreover, looking to 1990, the company believes that its sales may be 500% higher than in 1986.

This growth has been great for the retailers who have participated in it. However, it has been a different story for the foreign car manufacturers, parts manufacturers, and the importer-distributors. They benefited from an undervalued yen in the 1970s. Now, with sharp increases in the value of the yen, their costs of landing Asian goods in the United States have risen sharply—and they can not raise prices without risking loss of market share.

On this point it is interesting to recall that Volkswagen was the leading producer of foreign cars sold in the United States until the value of the German deutsche mark rose so high in the 1960s that the VW ceased to be a bargain. At that point, an opportunity opened up for the Japanese cars. Perhaps, bearing this experience in mind, Japanese exporters and domestic importer-distributors are determined not to lose market share, even if it means accepting lower profits resulting from shrunken margins.

The situation has forced importers to become even sharper on sourcing, finding new sources to meet standards. In terms of importers' sales programs, a great deal of effort and money is going to attractive, consumer-oriented packaging.

Part Numbers And Customers

The store are stocking merchandise for imported vehicles in a very sophisticated way, learning about local vehicle registrations and concentration on the faster moving items such as filters and ignition parts plus the faster moving hard parts such as starters, alternators, water pumps, brake pads and shoes, and hydraulic parts.

But, won't some customers for a Saab water pump go to the car dealer or an import specialist jobber if, as is likely, the chain store doesn't have it now?

One importer says, "Undoubtedly many customers will not

wait. However, it is far better—and more profitable—to say, 'We can get it for you tomorrow by UPS'—than to say 'Sorry. Try Joe's Foreign Car Parts down the street.' "

Catalogs And Displays

The two big questions about retailing import car parts are: Should there be just one catalog—or several? And, should parts for imports be lined up on one wall—or intermingled with domestic parts regardless of car make?

One company does both when it comes to catalogs; there's a master catalog listing all of its 10,000 SKUs plus separate catalogs for various lines which can be hung at the point of sale or kept on the parts counter.

As for import car parts display, there are two schools of thought, but retailers vacillate between them. One leader puts it this way: "Two or three years ago I was a lot more certain than I am now that the only way to go is to have a 'Wall of Imports.' What's happened since then is that I have seen a number of chains which are successful using the other approach. That is, all parts for the same function grouped together regardless of make.

"We used to talk about 'Making the Statement' that the chain is in the import car parts business. The 'Wall of Imports' was supposed to do that. However, what really makes the statement is servicing the customer. The biggest part of the statement consists of having the part in the store or being able to get it very quickly."

Fine Tuning Inventories

One of the problems traditionally associated with the import car parts market is slow turnover. It may be a super-fast growth business, yes—but when are those Isuzu brake pad customers coming?

Well, obviously checking local vehicle registrations is crucial. While some chains fail to do their homework, others do it quite well.

One Mid-Western chain, in a

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relatively thin market for import parts, groups import parts together. Chain stores typically devote one finely tuned gondola to import car items, about 60 sq. ft. of space out of a total of 2,000 sq. ft.

A chain executive says, "We serve a nine state region of the Upper Midwest and Far West in which registrations of import cars and trucks are thin—about 8% of total. However, we do have some metropolitan areas and college towns in which registrations are quite a bit higher. For these reasons it is hard to have identical assortments in all our stores.

"In addition, most of our stores are franchises. The owners look to us for advice—but if we give them wrong advice on what to stock, they might turn to other sources.

"For these reasons we concluded that we have to offer highly customized recommendations on import car parts inventories. Our supplier offers general recommendations on assortments based upon analyses of registrations in our market as a whole.

"We take these recommendations and modify them for individual stores, taking into consideration import vehicle registrations in their areas and the amount and type of competition. For example, if we find that a Subaru dealer is doing particularly well in a store's market, we might recommend increasing the proportion of parts stocked for Subaru," he adds.

Import And Performance?

The market for import car parts and the market for performance/accessory items are both fast growth segments. Is there an overlap? Chuck Blum, president of the Specialty Equipment Marketing Association (SEMA), says, "That's a good question. We wonder about that ourselves. To the extent that we have had joint trade shows of SEMA and Auto Internacional Association, it has been a successful marriage."

It seems that a substantial number of retailers interested in either of these specialty markets

ADDINGS, DELETING LIGHT TRUCK PRODUCTS

We asked our retail panel if they planned to add, delete, or keep the same product mix of light truck items in 1987 as they had in 1986.



Adding SKUs
50%

Keeping Same SKUs
40%

Deleting
SKUs
10%

Source: Automotive Marketing Retail Panel

is likely to be interested in the other. A common element is demand for customizing products such as specialty tires, wheels, louvers, racks, spoilers, air dams, sports car "bras", sun roofs, etc. These appeal to both the owners of domestic and foreign sports cars, sporty two-door cars, small pick-ups, vans, and 4-wheel drive vehicles.

John Duke, executive director of the Performance Warehouse Association (and a former BMW mechanic), has some definite ideas on the question of an overlap between the performance and import car aftermarket. "In the past, there wasn't much overlap because the customers were so different in age, background, and automotive interests.

"Our guys tended to be young, lacked college education, and were interested in customizing big, powerful American mass-market cars—primarily Chevrolet and Ford V-8s.

"In contrast, the owners of import cars—especially the higher priced European cars—tend to be middle aged and college educated. They tend not to feel comfortable associating with performance enthusiasts or patronizing performance retailers." Duke sees these owners as the natural patrons of import car dealers, import specialist garages, and in certain markets, import accessory boutiques.

However, putting aside owners of upscale import vehicles such as BMW, Mercedes, Maserati, Lamborghini, and the like, there

will be more of an overlap between the performance market and the import car aftermarket because performance enthusiasts are now customizing Japanese vehicles, in particular, small Japanese pick-up trucks. Some observers see these vehicles representing to the performance market of the 1980s and 1990s what big block Chevies and Fords represented to the market of the 1960s.

The Performance Market

According to Blum, the performance market had sales of around \$2 billion at the factory level in 1986. At the retail level, sales were probably in the area of \$4 billion. SEMA includes 40 separate product categories in its definition of the market. Blum notes that performance tires and custom wheels account for a substantial percentage of total sales of the market.

Because of a void of reliable information on the purchasing practices of consumers and distribution trends in this market, SEMA commissioned a comprehensive study by Lang Marketing Resources, Inc. The study involved research at the levels of consumers, retailers, jobbers, performance WDs, and manufacturers. (For information on the report, contact SEMA, 11540 E. Slauson Ave., Whittier, CA 90606.)

The study shows the average specialty equipment manufacturers increased their sales at the annual rate of 11.6% in the 1981-85 period. The SEMA report

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notes that this was more than twice the growth rate of the total automotive aftermarket during this period. Moreover, these manufacturers expect their sales to increase by about 11.2% per year in the 1986-90 period—about two-and-a-half times the growth rate expected for the aftermarket as a whole.

Consumer Profiles

The SEMA report identifies three categories of end users by what they spent on specialty products in 1985:

- Light Buyers spent less than \$500.
- Medium Buyers spent \$500 to \$1,000.
- Heavy Buyers spent more than \$1,000.

SEMA's Blum notes, "We found surprising developments by age group of consumer. Traditionally, consumers in the 18-24 years old group have been the most important segment of the market—especially for 'heavy' DIY purchases of high performance hard parts. This segment of the population will decline in the 1990s. This may adversely affect sales of the speed shops catering to the heavy buyers.

"We found comparatively smaller purchases of specialty equipment among consumers in the 25-34 and 35-44 years old groups. That was not surprising. Traditionally, they drop out of the market as they acquire family responsibilities.

"What was really surprising was the resurgence of the 45-54 years old group. As their children move away, they have more discretionary income to spend customizing their cars and trucks. They are coming back in a big way for cosmetic accessories including such big ticket items as louvers, spoilers, and air dams. What is important about this development is that over the next few years this segment of the population will grow."

Blum thinks that this demographic change is likely to increase the number of medium buyers. These buyers tend to

spend more money on customizing accessories than on high performance hard parts. The older, more affluent buyers in this group are likely to have their accessories professionally installed. This will open up a competitive opportunity for retailers who provide installation.

Light buyers include DIYers who are not racers or street performance enthusiasts or customizers. Some car owners, very properly, equate performance with high quality and long life. The rationale seems to be, "If this product is good enough to stand up to racing, it will certainly give me more reliable service."

Do-It-Yourself Activity

Not surprisingly, specialty equipment consumers are heavy DIY customers. The SEMA study found that nearly 90% of the specialty equipment consumers are DIYers compared to only 35% of the total automotive aftermarket. SEMA found that DIY activity increases with annual purchases. That is, the larger the consumer's annual purchases, the more likely he was to do the installation himself. For example, over 90% of consumers purchasing more than \$1,000 of specialty equipment annually did the installation themselves compared with only 83% among those spending less than \$500.

DIY activity is inversely related to consumer age; activity is high among the young and drops with increasing age. While over 92% of specialty equipment consumers under 21 years old are DIYers, DIY share drops to 79% among those 35 to 39 years of age.

The report also analyzes outlets patronized by light, medium, and heavy buyers. Not surprisingly, the heavy buyers are the largest group patronizing performance retailers and speed shops, including their mail order operations. The specialty equipment consumer will wait, if necessary, to get an item he really wants. Trends among performance WDs include: retail outlets, mail order, and feeding chain stores on "B &

C" numbers.

What are the buying factors in the performance market? Of specialty equipment buyers, 8.1% name product selection as the factor most influencing where they shop, followed by 7.8% for brand availability, 7.2% for price, and 6.3% for store appearance and convenience.

Selling Professional Mechanics

There is more cross-over in the automotive aftermarket. The trend of jobbers selling retail has been much discussed. Now it is time to talk about a trend among some automotive retailers toward aggressive promotion of sales to professional mechanics.

How could volume retailers compete with jobbers in selling professional mechanics? Partly because the chain stores have more convenient hours of service, including nights and weekends, and partly because automotive chain stores are willing to carry full lines of ignition parts. Some also hire outside salesmen to call on them, extending credit to some accounts, and, more recently, provide delivery service to dealer accounts.

Volume retailers can be separated, in terms of the professional installed business they seek, according to the coverage of applications they are willing to provide. For example, some chains, including discount stores which are not heavily automotive, are pursuing a short line approach. They may offer products of OE quality or cheap imported look-alikes. Automotive chain stores, on the other hand, are likely to offer full coverage of applications and to have at least one line which is of OE quality or better. Finally, some automotive retailers carry both a "street level" (OE quality line) and a high performance line for the customer who wants top quality and is willing to pay for it.

There are a lot of products and markets to consider in stocking an aftermarket volume retailer store or chain. And they all have to be weighed to produce the most profitable mix. ■

EXPANDING RETAIL OPERATIONS

Expanding a retail business takes more than money and a good location. It takes financial knowledge and careful planing.

So it's time to consider business expansion. Perhaps it's time to open a new store, franchise a current operation, or go public and sell stock. Before the balloons are ordered for the celebration, there are lots of considerations to be pondered and decisions to be reached. Only if all the pieces—the financing, the site, and the promotion—fit together will expansion be a success.

Looking At The Pieces Of The Puzzle

Every retailer seeking expansion has a different set of puzzle pieces to match in order to form a complete picture of success. There are, however, a half dozen interlocking pieces that must be in order for successful expansion. They include:

- A report card on the financial health of the current operation, a plan of action for financing expansion efforts, and an overall business plan.
- An honest answer to the question, "Does the market really need another new store?"
- A profile of the "ideal" market for the new store. This is just as important for expanding a current trading area as it is for opening new trading areas.
- A profile of the "ideal" site for the new store. Again, this is important both for expanding current trading areas and for opening new ones.
- A profile of what and who is going to be in the new store: fixtures, inventory, staff, and yes, customers.
- And finally, a system for

promoting the new store. Not just the grand opening, but day-to-day promotion to make the new store a success.

In other words, a strategic plan is necessary to guide retailers through the expansion efforts. Everything they do from selecting a site to selecting the merchandise mix should be based on a strategic plan.

Where Is The Business Now?

The first step in the strategic plan is to take a long hard look at current finances. A store-by-store, item-by-item audit will show where the money is going now in order to best decide where to put it in the future. Spot weaknesses; shore up strengths.

Once that is done, remember, no matter how good expansion looks, it is not a solution for a sagging ROI. Maximizing ROI on current business is essential before expansion.

Expansion takes lots of money. A company should be on solid financial footing before doing anything and have a budget for everything. Our chart shows the estimated start-up costs for an average aftermarket store.

An Introduction To Finance

Financing business need not be intimidating. A few elementary concepts can begin to demystify the process. Here are some basic definitions:

Money. Money is a commodity. It is traded on the market more than gold or wheat or any other commodity. Billions of dollars worth of equity shares are bought and sold every business day on stock markets. Large cor-

porations and financial institutions issue debt instruments worth hundreds of millions daily.

There is nothing mystical about the financing process. The entire secret lies in knowing what kind of money is needed, whom to approach in order to obtain some, and how to approach them. "Creative" financing is nothing more than adding the right characteristics to a financial instrument to meet the needs of the business.

Debt and equity. There are basically two kinds of money to put into business—debt and equity. There are many ways to package exotic financial instruments, but in essence they all will be related to, or convertible into, a more simple debt or equity instrument.

Debt and equity have many similarities. They can both be used for any purpose. They can both be used for unforeseen events. Both can be used for working capital to pay anxious vendors. Both lenders of debt and investors in equity expect a return on the money that they might put into business.

But there are ways in which debt and equity are quite different. Debt involves a lender making a loan to the business. Debt is generally characterized by a stated repayment schedule and a specified interest rate. The primary right of the lender is that he be repaid according to schedule and receive interest.

In addition, the lender usually asks for other rights while the loan is outstanding to provide reassurance that the principal is safe. For instance, the lender might ask for regular financial statements which must meet certain tests. Sometimes a lender asks for a security interest or lien against some of the borrower's assets as collateral for the loan. However, a lender has no claim to the business itself so long as the rights he was assured of during the course of the loan are taken care of.

Equity's characteristics are in many ways the opposite of debt's

characteristics. An equity investor is investing in the business instead of lending to the business. The investor is purchasing a piece of the ownership of the business for any one of several reasons.

At the time of the investment, however, he knows neither when he will get his money back nor what the overall rate of return will be. He realizes, too, that, depending on the success of the business, he may get all of his money back in a year or have to wait ten years for it. Or he may lose it all if the business fails.

The equity investor is entitled to a voice in the company's business decisions. He has a voice in the business because he now owns part of it. The "voice" or rights could vary from those of a full partner to only the right to cast a vote for a member of the board of directors. But an equity investor does have some voice, whereas a lender may not.

Financial Transactions

Getting someone to provide money for business is a financial transaction. Many of these transactions are similar to obtaining a mortgage to purchase a home.

Whether debt or equity, all financial transactions have those same characteristics. The lender/investor will provide money for a specific purpose. Depending upon the purpose, the lender/investor will have specific criteria that the transaction must meet. And the transaction must enable the lender/investor to make a profit.

The buyer of money should focus on how to get the cheapest money available. And "cheap" does not only relate to lower interest rates. The price of money includes all of the economic benefits and other related rights. A lower interest rate for debt with onerous lender's rights—such as detailed reporting and auditing requirements—could be considered more expensive than a loan which had a slightly higher interest rate with more acceptable lender's rights.

All things considered, the borrower still wants the least expen-

NEW STORE START-UP COSTS

The estimated average start-up costs for a new automotive parts store are listed below. Actual costs will vary depending on site location, degree of needed improvements, square footage, and service equipment. The costs listed are for a store which averages between \$160,000 to \$225,000 in parts and service sales volume per year.

Inventory	\$55,000
Lease hold improvements	\$7,000
Fixtures	\$10,000
Supplies	\$3,000
Cash register	\$1,000
Advertising (signs, media)	\$4,000
Insurance	\$1,500
Equipment	\$2,000
Rent (3 months)	\$3,000
Working capital (3 months)	\$12,000
TOTAL	\$101,000

Source: American Institute of Small Business

sive money available to his objectives. Not counting any money from grandparents, the least expensive money is most often debt. Debt is less expensive when the lender believes that a loan will be exposed to very little risks.

Excluding a loan shark, the most expensive money is private equity. Private equity is equity which is not traded on an open market such as a stock exchange. Without an open market, an investor in private equity may not have an easy way to sell his investment. That complication greatly increases his risk and results in his expending a greater reward.

Making Preparations

So, how does a borrower obtain the money needed at the lowest cost and on the best terms? Preparation precedes approaching the lender/investor. Preparations begin by putting on the lender's/investor's hat. The borrower should ask himself the same kinds of questions that a lender/investor would ask:

• **How much is needed?**

- What is the money to be used for?
- Does the company have a proven credit history?
- Will repaying the money plus interest be a burden to the company?
- How fast can the money be repaid?
- Has the company's recent and past several years' performance demonstrated more than sufficient cash flow to pay off the money?
- What differences will this money make to the business?
- Will the money be used to acquire assets which can be resold to repay the money if you can not?
- Is other collateral available?
- Will the money enable the business to grow in a fashion similar to previous growth?

Writing A Business Plan

It is increasingly common that any fund-raising effort will require submission of a business plan. A business plan is a document that sets out a company's plans, shows that the plans can be achieved, and demonstrates that the outcome satisfies the requirements of the lender.

The process of preparing a business plan requires a thorough evaluation of the company. Some companies may have the resources to prepare their own plan. Others may require some professional assistance. Either way, the plan needs to be written with the concerns of the lender/investor in mind.

The evaluation process should enable the company to determine what its financing requirements are and to understand what type of financing will meet its needs. The evaluation should also help clarify what risks a lender/investor would perceive in the business. By anticipating his concerns and addressing them, the company can present itself in the best possible light.

For example, although it's desirable to get the cheapest money possible, it might be that debt is

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not appropriate. Debt requires scheduled payment of interest and repayment of principal. Maybe the business plan indicated that the business will not generate enough cash to make those payments. Perhaps the planned growth will require reinvestment of all of the money made by the business into inventory for several years. If so, where would the money to pay interest and repay principal come from?

A business like that will therefore require an injection of equity money in order to meet goals. A well-prepared plan would be a real asset in seeking equity. Private equity is not only very expensive; it is also difficult to obtain unless the plan shows the investor that the company is worth the risk and the wait.

Another alternative would be an evergreen or revolving loan. Such a loan would only require regular interest payments. Principal payments would be optional during the term of the loan. A loan of this type would be collateralized, perhaps by a lien against inventory.

On the other hand, if repaying the loan according to a set schedule is suited to the business plan, then a term loan (set for a specified number of months or years) might be the answer.

The process of shopping for the right financial instrument is not unlike a customer's shopping for the right merchandise in a store. Sometimes the customer thinks that he "sort of" knows what he wants; sometimes he knows exactly what he wants. Often, the customer knows what he is trying to accomplish but needs a little help to figure out exactly what he needs.

The key to choosing the right kind of financing is understanding how financing would affect the business. Then a business staff can pick out the best features among available options.

Franchising

One option to consider when expanding is franchising. There are three basic types of franchises: straight product distribu-

PORTRAIT OF TODAY'S AUTO STORE

We asked our Retail Panel members to give us an idea of what the average auto store looks like today. Below is what they told us. It is interesting to note that some 63% said they had plans to build a new store, just like the one they have now, in the future.

% who agree that today's auto store:	
is between 2,000 and 6,000 sq. ft.	56%
is located downtown in a small town or city	51%
Has parking for 10 to 30 cars	55%
Employs between 2 and 5 full-timers	45%
Employs between 0 and 2 part-timers	55%
Has no service bays	57%

Source: Automotive Marketing's 1986 Retail Panel

tion, product license, and trade name. Here's how they work.

Straight product distribution. This type of franchising provides an outlet for a specific type of product being sold. The purpose of this type of franchise is to get the company's product into more stores. If private label parts are a big percentage of the business and if the profit-to-product ratio is good, it is possible to capitalize on this.

Product license franchising. Under this arrangement, the franchise actually produces, manufactures, or modifies a product, and uses the manufacturer's trade name, expertise, and marketing. This is what the fast-food restaurants do.

In the case of an aftermarket store, franchisees would buy the private label parts to use for service. They would also pay for training their mechanics and organizing their shops. Supervision comes from the franchisor.

Trade name franchising. This is where the franchisor licenses his trade name but exerts little or no control over the product or service.

The Benefits Of Franchising

There are six primary benefits of franchising for the franchisor.

They include:

Expanding with franchisees' capital: By franchising, the capital necessary for expansion comes from the franchisees. This frees company capital for other purposes.

Gaining new and constant revenue sources: Depending upon the terms of the franchise agreement, ongoing revenues can be collected for such things as sales, materials and supplies for inventory, management assistance, or renting or leasing equipment or fixtures.

Setting policy: Since the terms of the franchise agreement are in the hands of the franchisor, regulations can be set to protect company policy. These regulations control the purchasing of goods, store appearance, information reporting, payment dates, and anything which might affect the franchisor's well-being.

Providing motivation and incentive: Under normal circumstances, when a company expands, it does so by adding employees. These may or may not be loyal and hard-working. Under the franchise method, by offering ownership in exchange for specific privileges, the franchisee has the incentive to work towards success.

Minimizing financing: The sale of franchise licenses can provide the franchisor with funds necessary to expand and improve operations without the expense of financing.

Qualifying the franchise: By setting qualifications and standards, the franchisor is able to ensure the integrity and success of the operation. Not only is the franchisor able to select the individual with the best qualification; but he is also able to set standards of operation within the agreement which will give him control.

The Disadvantages Of Franchising

There are three primary disadvantages of franchising for the franchisor. They include:

Operations control: Without direct ownership, franchisors do not have total control. With-

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out tightly defined procedures, and adherence to those procedures, company image and profitability can suffer.

Definition of the business: As the franchise operation matures, meeting the challenge of future markets requires strength and control. Since the franchisees are actually partners, not employees, disagreements about future direction or policy may arise. Concern about maintaining control over of the company requires dealing with many unpredictable variables.

Dependence on the strength of others: Even though great care and consideration is used to choose the franchisees, the franchisor still can find himself at the mercy of poor management. Under a company-owned operation, correcting this problem is simple. The boundaries defined by the franchise agreement must serve to protect both interests. As such, they may hinder and impede the resolution of problem management.

The Contract Is The Key

Although there clearly are problems associated with franchising, most of the problems are manageable through a well-structured franchise agreement. There is no such thing as a standard franchise contract. The contract outlines not only the restrictions but also the obligations of both franchisor and franchisee.

These obligations are clauses in the contract. Some of the clauses commonly found in a franchise contract include:

Term of the franchise: This deals with the length of the agreement and any renewal conditions.

Advertising: This deals with not only the franchisor's responsibilities in advertising but also the franchisee's contributions.

The physical plant: This establishes whose responsibility it is to develop the physical location of the store or outlet. If the property is to be leased, terms and conditions should be included to protect each party against the de-

DISADVANTAGES AND ADVANTAGES OF FRANCHISING FOR THE FRANCHISOR



fault of the other. Also, specifications of design, equipment signage, furniture, and fixtures should be clearly specified.

Payments, fees, and royalties: This defines initial payments and any ongoing fees or royalties paid for services or as a percentage of sales. These payments are commonly based upon financial statements which the franchisee is required to provide at regular intervals. Included in this section is a schedule of due dates and the penalties incurred as a result of default of payment.

Supplies and materials: This outlines what products and operating supplies are to be obtained from the franchisor. This aspect of the agreement is very important when the product or service quality is tantamount to the operation of the business.

Product restriction: This outlines the restrictions on the types of products that may be added to the operation.

Operations: This includes the procedures and rules set forth by the franchisor to serve as a standard for all the franchisees. Pricing, which must be kept competitive within the region the fran-

chise is located in or standardized among franchisees, is the most critical. Other criteria such as store appearance, operating hours, training, and hiring guidelines are potential additions to the contract if warranted by the type of franchise.

Assignment, buy back, or sale of the franchise: This area of agreement outlines the conditions under which the sale of equity or assignment of franchise rights can take place. This is very important to the franchisor in order to maintain necessary control of operations. Additionally, this provision permits future buy-back of stores to add to company-owned franchisees.

Going Public

If franchising does not meet the company's expansion needs, it may want to try to go public to raise the needed capital. Going public is the process of selling stock in a privately-owned company to the investing public. Going public can be a viable means of raising capital funds, but it also requires compliance with stringent registration and securities regulations. Once stock is sold, the company is considered a public company, and its stock is openly traded on a stock exchange.

Small to mid-size aftermarket companies are good prospects for going public if they have sound management, strong historical sales growth (20% or more per year), good potential for future sales growth (20% or more per year), total sales of \$15 million or more, and net income of \$1 million or more.

Advantages And Disadvantages

There are clear advantages to going public. These include:

- A source of additional capital with generally unrestricted use.
- An improved balance sheet, which means increased borrowing power.
- Liquidity and market valuation.
- The ability to acquire other companies with stock rather than cash or debt.

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- The chance to develop stock incentives to attract and retain employees.
- The business advice and expertise offered by an outside board of directors.
- Prestige.

However, going public also has disadvantages. These include:

- Expense of the underwriters' commission, registration, and other costs which can run as high as 10% of the total offering.
- The large investment of management time required for shareholder relations and meetings with security analysts.
- The need for greater earnings to avoid reducing per share earnings.
- The risk of management blame, litigation, and the inability to offer more stock if the market share value declines.
- The costly and complex reports required for the initial offering, and on a regular basis afterwards.
- The requirement of public disclosure of management salaries, of financial transactions between the company and management and/or affiliates, and of the identity of customers and vendors.
- A loss of management control and flexibility to and through outside directors on the board, proxy rules, and unknown shareholders.
- Increased liability to officers and directors by shareholder suits.

The advantages and disadvantages of going public must be carefully weighed against those of raising additional capital through more traditional means such as borrowing.

Assembling The Offering Team

Once the decision to go public has been made, the key to a successful public offering is assembling the proper "offering" team. This involves selecting underwriters, accountants, counsel, and possibly new directors.

OBLIGATIONS OF THE FRANCHISOR AND FRANCHISEE

Franchisor obligations:

- Financial assistance
- Site selection and layout
- Equipment specifications
- Promotion and advertising
- Bookkeeping/accounting
- Product supply assurances
- Business operations manual
- Hire/train employees
- On-going support

Franchisee obligations:

- Maintain schedules
- Abide by store layout
- Obtain required insurance
- Obtain training
- Provide financial reports
- Provide working capital
- Devote personal effort
- Maintain buildings

The underwriters are critical to the offering team since they purchase the stock and resell it to the investing public. In selecting the underwriter, examine the company's distribution capabilities in, and its familiarity with, the automotive aftermarket.

Going public requires registration with the Securities and Exchange Commission (SEC). The registration process demands liability of the company in the event of material misstatements or omissions—despite good faith. For instance, an unintentional omission of a contingent liability or other financial information could result in litigation from outside shareholders.

For a successful offering, it is crucial to retain special counsel and accountants experienced in securities matters. Though loyalties exist toward long-term lawyers and accountants, a public offering requires skills that they may not have.

Selling The Stock

Typically the offering is sold by the underwriter during the SEC review period. After filing the registration statement, the managing underwriter forms a syndicate of underwriters. Salespeople within the syndicate distribute the preliminary prospectus and

solicit orders. These orders are non-binding and may be canceled at any time before the customers receive a final prospectus. The number of shares and issue price are determined shortly before the statement is declared effective.

After the registration statement is declared effective, the final prospectus is printed, with the number of shares and the offering price. The underwriters send the final prospectus to their customers along with the confirmation of sale. A closing is held approximately seven days after the registration is effective. At the closing, the underwriters distribute the securities to their customers, and the sale proceeds are paid to the issuer.

After the public offering, the company is subject to additional disclosure and reporting requirements of the federal securities laws. These laws are extremely complex, and directors and officers should review all obligations and responsibilities with the company's legal counsel.

Alternatives To Full Disclosure

When deciding to go public, aftermarketers should also explore alternative methods exempt from SEC registration, such as exempt or Regulation D offerings. These may be more palatable to your management tastes. For example, exempt offerings avoid the costly registration procedures of the SEC, which can account for as much as 25% of the cost of issuing stock. These alternatives include intrastate and regulation D offerings. There are three types:

Type 1: Small offerings up to \$500,000. There is no limit on the number and type of investors, but there are some restrictions on advertising and solicitation.

Type 2: Small offerings up to \$5 million. There is no limit on the number of accredited investors, but there can be no more than 35 unaccredited investors. (The SEC has investor qualification standards that define accredited investors.) Advertising and general solicitation of inves-

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tors is prohibited.

Type 3: Private placement with no limit on the offering size. There is no limit on the number of accredited investors, but there can be no more than 35 unaccredited investors. Advertising and general solicitation of investors is prohibited.

Where Is The Business Going?

If the operation is financially strong enough to expand either on its own or through one of the ways discussed above, the question then becomes where to locate the new store? It used to be that if a company wanted to expand, it just looked for an empty store front, put up a sign, and waited for customers. But in today's retail climate, smart after-market retailers think twice about opening a new store anywhere.

They realize that each new store in a given trading area means one more slice out of the pie. Even if the next new store is one of your own, it means a smaller slice for each of your stores. And each new store brings with it its own startup and operating costs. All of these are measured against the company's bottom line.

With that in mind, perhaps the best location for a successful new store is no location at all. Some retailing experts believe that there are more stores than customers in certain areas of the aftermarket. However, what is important is not whether the aftermarket is overstored but whether the specific corner chosen for expansion is overstored. A review of all competition in the chosen market will tell.

To Market, To Market

If the proposed expansion is into a new market, the first question that usually pops up is, "How big is that market?" Often, it doesn't matter. The size of the new market is in many ways the least important thing about it. What absolutely needs to be known can be broken down into three parts: people, competition, and cars.

A big market demographically

FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

All companies issuing securities are subject to the federal registration provisions of the Securities Act of 1933. Each state also has regulations on the sales of securities, called "Blue Sky" laws. Registration is the formal process of filing documents with the SEC and state regulatory authorities to permit securities to be sold and traded.

The registration statement includes extensive information about the nature and history of the business, its management, and its intended use of funds, and several years of audited financial information. The registration statement has two parts: the prospectus, which is the selling document; and supplemental information, which is available for inspection at the offices of the SEC.

Preparing a registration statement begins once the public offering team is assembled. The team holds a meeting to identify who will complete the various sections of the statement and it creates the timetable for each section's completion. After the statement is completed, it is referred to as the preliminary prospectus or "red herring" and it is filed with the SEC. The red herring is filed without the offering price or the number of shares to be sold.

Registration statements are reviewed by the SEC to determine whether the disclosures are adequate. Each registration statement is reviewed in detail by at least two SEC staff members, an examiner and an accountant. Special attention is paid to the financial statements. The review process generally takes 30 days.

After the review, the registrant receives the comment letter from the SEC. The review almost always finds some deficiencies. Comments may require substantial changes or in-depth explanations to the SEC staff. Once all deficiencies are corrected, the registration statement is filed in complete form and automatically becomes effective 20 days later.

To avoid costly delays, the company's financial officer and the offering team professionals who assist in preparing the registration statement, particularly the financial portions, must thoroughly understand the review and comment process.

is only good if those millions of households fall into the categories that would be shoppers. And that is only good if other retailers have not already out-flanked a new store. Small demographic markets should not be overlooked if they are the way to profitably expand the chain. Finally, the cars in the chosen market impact on what type and how much product is carried in the new store.

Now the business is ready to select a specific site for a new store. But again, all the needed information should be there before a decision is made. What information is needed to know for the market, is needed to know for a site in that market.

In addition to people, competition and cars, knowledge of several other factors is needed before money goes down. Things like how the local zoners feel about service bays. Things like current and future traffic patterns.

Once You've Arrived

Once a market and site have been chosen the site, there are still other decisions to make such as: build a new store or lease and remodel an existing one; bring in a crack opening crew or hire all new personnel; spend the lion's share of your opening budget on equipment or fixtures; concentrate the inventory on domestics or imports or both. At this point the company needs to review its strategic plan.

There is one final thing, something that often gets overlooked after the grand opening hoopla is past. A new store needs ongoing promotional support to be successful. Some members of our Retail Panel said they keep up special new store promotional support for as much as a year. Most retailers agree that it takes at least six months to a year's worth of promotion after a store is opened to keep it successful. A very common complaint of retailers who have expanded is that it took their new stores longer than they planned to become self-supporting—because they pulled out the support too soon. ■

CONTROLLING OPERATIONAL COSTS

More than anything else, controlling operational costs means more dollars at the the bottom line.

When retailers face difficult times, those who prosper are the ones who best manage their operations costs. A major opportunity for improving profits comes from reducing these operations costs. Almost nowhere else can savings be so highly leveraged as in the store operations area. Even a small improvement at the store operations level can add significantly to bottom line profits, especially when the results are carried across an entire chain.

Four major areas for improvement in store operations cost controls are:

- Use of staff,
- Controlling shortage,
- Controlling inventory
- Controlling insurance costs.

Staff Utilization

Personnel productivity is one area in which store operations affects profitability. For example, if stock help is straight-scheduled and shipments come from the warehouse twice each week, there may not be enough help to deal with the peak loads of incoming shipments. As regular sales help pitches in to deal with the incoming merchandise, customer service drops.

Therefore, scheduling the right number of people in the store at the right time and in the right area can mean a maximum return from sales with a minimum of salary expenses. Poor scheduling can quickly burn up payroll dollars while generating little return. Again, the effort is felt directly on the bottom line.

Another routine area for store operations is the display of

AFTERMARKET BUSINESS: A MEDIUM RISK

Aftermarket retailing is a medium risk business when it comes to various types of insurance coverage, according to A.M. Best Co.'s hazard index.

6

Crime

5

Automobile liability
Worker's compensation

4

General liability
Product liability (completed operations)
Fire

2

Business interruption

1-3 = Low, 4-6 = Medium, 7-9 = High, 10 = Very high

Source: A.M. Best Co.

merchandise. Most chains today have at least a generalized set of instructions for how the store should be merchandised. However, store managers generally have some discretion on how the store is set up on a day-to-day basis. There is no doubt that stores that are set up properly and merchandised in an attractive manner produce more sales. To the extent that planograms are not followed, SKUs may not be represented, stockouts may occur, and shortages can result.

Controlling Shortages

In terms of shortage control, there is a direct link between store operations and the bottom line. Merchandise that is lost, stolen, or damaged increases costs and automatically cuts into profits. In many cases, shortages are really just poor control of paperwork. In fact, a recent study conducted by Touche Ross found that up to 20% of shortages reported by retailers was attributable to paperwork errors. Another substantial portion of shortages can be blamed on internal theft. However, whenever cashiers ring sales incorrectly, when markdowns are not recorded properly, or when transfer quantities or prices are not verified, shortages can result.

Inventory Control

In most environments, store operations personnel have a major impact on the level of inventory and the timeliness of shipments of goods. For example, if shipments are not delivered on time, if inventory is too low, or if too many out-of-stocks occur, the results are lost sales dollars. If the merchandise is received after peak selling periods, unwanted inventory, and even out-of-season goods, can sit in the stockroom, tying up much-needed capital and draining profits. By the same token, shelves that aren't filled or displays that are not kept neat typically result in lost sales. Have enough of these occurrences, and customers won't come back.

One way to manage inventory operations costs is to develop a network of local suppliers.

Local Supply Networks

Local suppliers can provide a profitable means of inventory control for some kinds of retail operations. These suppliers may include the local WD or rack jobbers. Local, rather than national, WDs may be a good source for products. Rack jobbers, who will take orders for individual stores, fill the shelves, and rotate the stock as

CONTROLLING OPERATIONAL COSTS

needed, can also be a good source.

For other retail operations, however, it makes sense to warehouse items centrally and deliver them to the stores on an as-needed basis.

The Inventory Problem

Most auto parts stores have a conflicting set of goals: They want to carry a broad assortment of parts and accessories and have enough stock to satisfy the customer, but they don't want to carry so much stock that the inventory becomes obsolete on the shelf. When you consider that the number of items a full line auto parts store carries is often more than 10,000, it quickly becomes apparent that smart inventory control should be a primary objective.

Studies performed by Touche Ross indicate that it is not uncommon for the annual sales of any particular item to average less than one unit per month, particularly in the hard parts area. Other items, such as oil and antifreeze, have extremely high rates of sale. The primary problem comes down to having the right quantities of the right items at the right times.

A second problem is controlling the costs of shipping and handling merchandise. In many firms, stores receive shipments once, twice, or even three times each week depending on their volume. With each shipment received, double handling takes place—first at the warehouse, then at the store. The handling costs incurred can be very high, particularly for high volume/high bulk items such as batteries and antifreeze.

A third problem is created by small, impulse items such as visor mirrors and decals. These are frequently low velocity items. They are also laborious to count, mark, and fill in. Because of the difficulty of keeping track of these types of items, out-of-stocks frequently occur. Or, if such an item is out of stock, something else is put in

RETAILERS AND PRODUCT LIABILITY

While manufacturers grappling with the product liability "crisis" grab headlines, retailers, too, face a product liability hazard.

Just who is responsible when a product fails, the retailer who sold it or the manufacturer who produced it? Several insurance experts including Fred Austin, spokesman for Federated Insurance Co.; Harvey Seymour, spokesman for the Insurance Information Institute; Jerry Verlin, director of mass merchandising for Sentry Insurance Co.; and Robert Montgomery, vice president of the American Association of Insurance Services, responded to that question.

"Normally, though the retailer may be named (in a product liability suit), he stands behind the protection of the manufacturer. That is, the manufacturer almost always assumes the responsibility. The manufacturer is the retailer's first defense," Verlin says.

"The lawyers will name everybody to a suit. But unless the product has been opened or otherwise damaged by the retailer, the manufacturer pays. If there has been damage, the retailer may have to defend himself," Seymour says.

"The retailer's burden is not as great as the manufacturer's. He is usually released from the suit unless he has changed the product," Austin says.

However, things may not go so easy for the retailer if the product is imported, if the retailer has his own label on the product, or if the retailer in-

stalled the product.

"If it's a foreign product, it is more difficult for the retailer. If the product is from a U.S. subsidiary of a foreign manufacturer, again the manufacturer would come first," Verlin says.

"If the overseas maker has a U.S. subsidiary, action would go against that. If not, it is possible that the parts place could get socked with everything," Seymour says.

The experts agree that there is a gray legal area where "service liability" ends and product liability begins. Since such cases involve state law, it is best to discuss any such questions with your insurance representative on a case-by-case basis.

Can a retailer reduce his liability risks on both domestic and foreign products? Yes, say the experts. Retailers should:

- Purchase products from reliable suppliers. Make sure the products do what they are supposed to do. Pay special attention to potentially dangerous products.

- Look out for products damaged in shipping. Never remove, or allow to be removed, safety labels, warning labels, warranty notifications, or the like from products or packages.

- Ask to see a certificate of insurance from foreign suppliers and wholesalers of foreign products. If a retailer is big enough, it can ask to be named on the manufacturer's policy as an "added insured."

In addition, retailers should check with their insurance agents when adding a new product line. Make sure the insurance covers it.

its place and the missing item isn't reordered. Sales are lost.

Today's retailers are solving these three inventory problems, and controlling the associated costs, in a systematic manner with a variety of solutions.

Developing Solutions

For very good reasons, most auto parts chains have developed a central warehouse facility to help control inventory and distribution costs. In most instances, this approach makes a great deal of sense. Because of the relatively low incidence of sale of most items in the store, and because of the very large

number of items carried, it is generally much more economical to order centrally and restock the stores based on actual sales.

Solutions: Store Order Quantities

The decision to warehouse or to use local suppliers depends on a variety of criteria.

If a store typically orders less than a case quantity of an item, it probably makes more sense to maintain the item at the warehouse. By allowing the stores to order in single units, the store has less of a burden in terms of inventory level. This is especially appropriate for hard parts,

CONTROLLING OPERATIONAL COSTS

which can be ordered in pallet load quantities by the warehouse and shipped as units to the stores.

By the same token, tiny impulse items and various gadgets may sell in relatively high quantities. But because there are so many SKUs, it may not be worth the time of the store manager to count and reorder those items on a weekly basis. A number of firms have concluded that it is ultimately more profitable to maintain this business through rack jobbers. In many instances, the reduced gross profit percentage is more than offset by a better in-stock position and by increased sales. There is also the side benefit that the store manager can spend time doing more productive work than counting gadgets.

Solutions: Bulky Merchandise

Auto parts stores are blessed with the luxury of not carrying a lot of bulky items. Or are they? For companies doing a large tire business, tires certainly take up an enormous amount of space, particularly if several lines are carried. It is probably not realistic to carry a large quantity of this kind of reserve stock at store level. On the other hand, highly seasonal merchandise such as antifreeze can impose an enormous burden on warehouse facilities. While not technically bulky merchandise, the high rate of sale and frequent promotional activity requires that large quantities move through the distribution system very quickly.

One alternative is to rent off-site storage space to handle the overflow. If the space is needed only for a short time, the cost advantage of large volume purchases may warrant incurring the cost and inconvenience of off-site storage. While a local distributor might be able to provide more convenient service, the intense level of price competition on these items almost precludes the use of local ven-

dors as primary sources of supply.

Batteries, however, are a different case. Most stores today carry an extensive line of batteries. With the high number of SKUs this requires and the uncertainty of demand, some firms have found it advantageous to allow stores to deal with local sources. Depending on the agreement with a local supplier, an adequate supply source of batteries to deal with sudden spikes of demand—heat waves or cold snaps—is possible. At the same time, scarce backroom space can be used for other items.

Solutions: Moderate Sales Volume

Merchandise with a steady but moderate sales volume is a good candidate for pooled stock. Sales of this merchandise are fairly easy to predict, and small unit shipments can be sent to the stores quickly enough to ensure that sales are not lost. This description fits the large majority of items that are carried by auto parts chains. However, for those chains with large enough stores, particularly high volume items warrant the consideration of using local suppliers. A prime example of this is motor oil. While oil is a prime volume item and traffic builder, it generates a very low margin, and is heavily promotional. In this instance, the equation may favor using local delivery. Consider these factors:

- **Oil is bulky, and very heavy. Its high sales volume increases the allocated shipping costs to the stores.**
- **Oil takes up valuable warehouse space. Storing it may reduce the headquarters buyer's ability to take advantage of special deals.**
- **Warehousing oil may incur a double handling charge—once at the warehouse and once at the store.**

The decision to buy oil locally is not simply an evaluation of the 100% losses, the losses that will put business under that you need

to be covered for, insurance experts say.

Establishing a priority of losses saves a lot of time, money, and heartache. Those things that would put a company out of business, like a fire or the death of a partner, are the things to insure for.

Beyond the worker's compensation and health insurance packages that are standard for all types of business, there are three more types of insurance every aftermarket retailer should carry. These are:

- **Property**
- **Liability (general and product)**
- **Specialty Coverage**

Property insurance pays for buildings, fixtures, and inventory should they be destroyed totally (as in a fire) or in part. Property insurance should be enough to replace those items at their current market value. An annual review is important.

The difference between insuring business for 75% of its total replacement value or increasing coverage to 100% is usually "very small," according to insurance industry spokesmen. But 25% difference is important—it could keep a store in business.

Liability insurance, both general and product, is a hot topic these days. In the simplest terms, general liability (or bodily injury) insurance is what pays the hospital bills when that customer slips on that spilled oil, while product liability is what pays if a store or chain is found at fault in a product liability suit. Determining how much liability insurance, of all types of insurance, is the hardest. The retailer should look at how much it would take to put him out of business.

Product liability insurance needs vary according to exposure. For a detailed look at the special product liability needs of aftermarketers, see our story "Retailers and Product Liability."

Beyond property and liability insurance, a business may have its own special insurance needs. These can be covered by "special-

CONTROLLING OPERATIONAL COSTS

ty" insurance policies.

The most common "specialty" coverage is for business interruptions. If a business burns, property insurance will replace bricks, fixtures, and inventory. Liability insurance will pay any hospital bills. But what makes up for the lack of income during the rebuilding time? Business interruption insurance. Such coverage would also help if a sole supplier had a flood and was unable to deliver the products a store needed to stay open. Or if a point of sale computer system broke down to the degree that a store had to close its doors.

There are as many types of "specialty coverage" insurances as there are business contingencies. For instance, accounts receivable insurance covers losses for firms unable to collect funds owed due to the destruction of accounts receivable records. So reduction in margin versus the cost of delivery. The decision should also take into account the major saving in space and what the cost of off-site storage would be. More difficult to quantify are the opportunities lost (on sales of other items) because X number of square feet in the warehouse is allocated to the storage of oil inventory.

Solutions: Inventory Control

A central location for company-wide inventory can provide better control. It stands to reason that a warehouse or distribution center with full-time personnel whose primary responsibility is controlling stock should have a more disciplined environment than a store with either part-time stock help or sales personnel aiding with marking and stocking shelves.

A Delicate Balance

Selecting the appropriate source for merchandise can be a difficult decision. For certain items, it can be more profitable to settle for somewhat lower margins to ensure a better in-stock position—generating higher sales with less total inventory. For these items, the local suppli-

AFTERMARKET RETAILING: A RISKY BUSINESS?

In general, insurance companies do not consider aftermarket retailing to be a particularly risky business. According to the A.M. Best Co., which publishes statistical references and underwriting guides for the entire insurance industry, the average aftermarket retail operation is considered a medium risk business.

However, the risks do go up depending on the business. The risks go up if a retail store sells private label or imported merchandise. If it does repairs or installations, if it is located in a high crime area, and if "housekeeping" isn't up to par.

Each insurance company and each underwriter looks at each business individually. However, there are some points that underwriters industry-wide will look at. Retailers can help themselves by reviewing these points in their own risk management plan. Here, by insurance type, are some points aftermarketers should review annually:

- **Business Interruption.** Retailers should have back-up suppliers for all items (equipment and inventory) that they can not do business without.

- **Crime.** Retailers should have more than one employee on duty at all times. Standard precautions (frequent supervised deposit trips, locked safe and cash drawer) should be taken with cash and credit card slips. Are customers supervised, or can they wander into stock, warehouse, or service areas? Are employees screened before hiring? Would alarms or other security devices be a good idea in your neighborhood?

- **Fire.** All flammable materials should be stored, handled, and disposed of properly. Fire extinguishers and smoke alarms should be inspect-

ed and charged regularly. Is electrical wiring adequate and up to date? Is a no smoking policy enforced?

- **General Liability.** Sidewalks and parking areas should be free of debris and well lighted. Aisles should be wide and uncluttered. Shelving should be sturdy and not overloaded. Wall and overhead displays should be checked for stability. Are customers supervised, or can they wander into stock, warehouse, or service areas? Is there a regular program of maintenance/clean up for inside and outside areas?

- **Product Liability.** Retailers should be sure warning labels, safety features, and warranty information provided by suppliers remain with products until they reach the customer's hands. They should deal with reputable suppliers and ask to see their certificates of insurance. Keep records of all suppliers. Remember, a primary liability exposure exists if merchandise is sold under private labels. Are employees adequately trained to give advice or installation tips? Are they adequately trained to perform service? If repair/installation work is done, are thorough checklists and records kept?

- **Vehicle Liability.** If company-owned vehicles are used for deliveries, drivers should be properly licensed and their driving records checked. If employees use their own vehicles, does company liability cover them?

- **Worker's Compensation.** Sidewalks, parking areas, loading areas, and service areas should be free of debris and well lighted. Shelving should be sturdy and not overloaded. Equipment and tools should be checked for damage regularly. Personal protective equipment and first aid kits should be available. Are employees fully trained in the safe operation of equipment?

er may be the answer. By the same token, unless a local supplier can benefit from a steady demand for large quantities of bulk or low margin items, the tradeoff may be such that it is better to keep the replenishment function centralized.

In other words, pooled stock and localized supply are not mutually exclusive. The trick is to

find the right combination that will minimize overall distribution costs and maximize service and profits to the organization.

Insurance As A Cost Of Operation

Another major operational cost of doing business today is insurance. Today, insurance is no longer a routine purchase. Large companies hire risk managers,

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who constantly evaluate their firm's exposures and insurance costs. Smaller firms can help their own insurance situation.

How? By establishing a three step insurance operations management plan. First, review of insurance needs. Second, reduction of risks. And third, shopping around for the best buy.

Review Of Insurance Needs

When fire destroys a store, when a new service technician disappears with the day's receipts, when a customer slips on oil spilled in the aisle, or when a product sold is alleged to have been faulty, insurance is what stands between a business and financial failure.

Is there enough insurance to protect a retail aftermarket business from failure? Probably not. Having too little or the wrong kind of insurance is the biggest worry most retailers have. And most don't realize it until it's too late.

Very few businessmen have enough insurance. Almost everyone can absorb small losses. But chances are those are the losses already insured against. It is the called fidelity insurance could make up for the receipts taken by that service technician.

Unlike personal insurance which is usually sold in standard "menu item" packages, commercial or business insurance is more like a smorgasbord of options. "Specialty coverages" allow businesses to pick and choose exactly what's needed.

Many aftermarket retailers fail to carry "key man" insurance. If the key man in a business—the owner, a partner, or another individual—dies, that business can fail. Partners and major stock holders should all have insurance benefiting each other (and the business) so the business can survive "cash flow" problems in the event of a death.

Insurance should be enough to protect a company from losses it can not afford to sustain. However, a company can end up with insurance it doesn't need—coverage protecting it from losses it

can sustain—"plate glass" insurance.

Reduce Your Risks

Aside from insurance market conditions over which a company have no control, insurance rates are based on how risky the insurance companies think that business is. Luckily, the average aftermarket retailer does not present a unique risk.

However, aftermarket retailers are vulnerable in two areas: product liability and service. The more service done, the more risks taken. (Again, see our story "Retailers and Product Liability" for a discussion of the product liability issue as it relates to aftermarket retailers.)

Unlike product liability, where the manufacturer is the first line of defense, retailers who perform service are totally liable for the results of that service. There is a gray legal area as to where "service liability" ends and product liability begins when it comes to suits over installed products. Such cases involve state law, and it is best to discuss such questions with insurance representatives case-by-case.

Even retailers who do service can reduce risks. A quality control program in service bays helps. Service techs who use step-by-step checklists for each job help. Having the customer sign the checklist before releasing his car helps. Keep the sheets as records. Service supervision by managers and training for technicians helps.

When it comes to reducing risks, most insurance companies award "judgment" points based on what the underwriter finds when he looks at a business. These "judgment points" are not cast in concrete. They are up to the discretion of the underwriter and the company he represents. But a clean shop, a good loss history, well-trained and well-managed personnel will all count in a store's favor with almost any underwriter and/or company. And these are things which can be controlled.

Some risks can be eliminated entirely. For instance, too costly vehicle insurance premiums can be eliminated by eliminating that parts delivery truck if it doesn't earn enough money to make up for the premium. In addition to reducing risks, eliminating that "plate glass" coverage will save money.

Shopping For Insurance

Retailers should shop for insurance and an insurance supplier the same way they shop for merchandise—shrewdly. Experts advise retailers to look for a professional agent, adequate amount of coverage, degree of service, and lastly, price.

A good agent will take the time to review needs. And a retailer should give him the time, not just a quick conversation across the parts counter. An agent should be familiar with the business. Someone who regularly handles aftermarket accounts is ideal.

Again, due to the "smorgasbord" nature of commercial insurance, any independent agent should be able to offer a retailer the insurance he wants. An independent agent, in business for himself, doesn't work for just one company and offers a variety of coverages from several companies.

Apple to apple comparisons are crucial. Retailers who are not fulltime insurance professionals can get confused without these.

Retailers should shop for insurance like it is a service they are going to use—because they are going to use it. However, it's time for retailers to stop shopping for price. Insurance is too important to the survival of the business to treat in a "lowest bidder" fashion. Besides, if your needs are pinpointed and unnecessary risks eliminated, coverage should be more affordable. While insurance is not, and never will be, a profit center, proper management of this operational cost can result in a healthier bottom line. ■

EMPLOYEES ARE CHANGING

Retailers now are studying demographics from a different standpoint—that of their own staffing requirements.

In recent years retailers have become very conscious of demographics. They know all about the baby boomers and the greying of America. They do not build stores or plan merchandise assortments without consulting figures on who lives where and what the average disposable income is. Retailers use sophisticated methods to determine who their customers are and what those customers spend their money on.

While retailers have learned to use demographics to meet consumer needs, they now are studying demographics from a differ-

ent standpoint—that of their own staffing requirements. And, what they are seeing disturbs them. They are seeing the pool from which they have traditionally drawn most of their employees shrinking. The number of Americans in their teens and early 20s is dwindling.

One has only to visit a fast food restaurant or supermarket or large discount store to see the problem boldly taped to the windows: "Help Wanted." The signs have become as permanent as the push-pull stickers. Some companies even offer bounties to current staff who recruit new

employees who last three months on the job. To handle the Christmas crunch the last few years, retailers in one East Coast city bussed people in from outlying suburbs.

Numbers Tell The Story

Demographic information does not cause the problem or help to solve it, but it does show individual retailers that the problem is not theirs alone.

For example, between 1980 and 1990 there will be a drop of 19.7% in the 15-19 year-old category and 14.1% in the 20-24 year-old age group. Taken together, these two groups will show a drop of 16.9% from 1980 and 1990.

Besides the shortage of eligible employees, there are other factors making it difficult for retailers to staff their stores, distribution centers, and warehouses. *Turnover* is one of them. According to one study, the retail industry generally hires 20% of the total pool of young people. For roughly 75% of part-time employees many retailers report a separation rate of from 250 to 300%. There is a steady cycle of hire and replace. But with pool shrinking, initial hiring and replacement will be much more difficult.

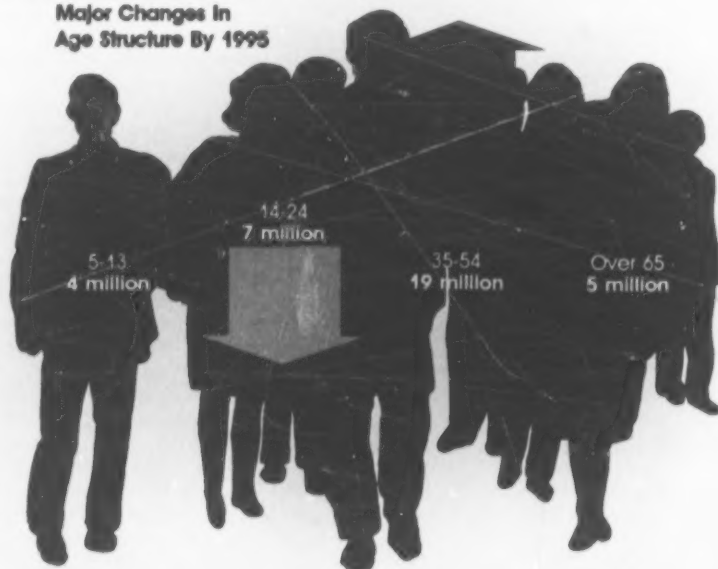
Another factor in the problem is the *wage structure*. The long practice of minimum wage payments in entry level positions has hurt the retail industry and will continue to make it difficult to compete for a better educated (at least, degreed) employee. If other industries are offering more money, better fringe benefits, and more attractive work hours, why would a young person with a choice choose to go into retailing? Or to stay there?

Another factor shrinking the worker pool for retailers is "*computer mania*." Youngsters hear so much about the future of the country being in computers, that many of them are learning the computer. Youngsters who at one time may have considered retailing, or at least serving for a time, now move immediately

CHANGING DEMOGRAPHICS CHANGE EMPLOYEE POOL

By 1995, the age of the population will have shifted dramatically, reflecting a more mature employee pool. The biggest jump will occur in the 35-54 age bracket, with a projected increase of 19 million people.

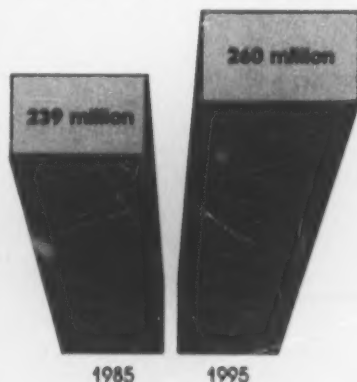
Major Changes in Age Structure By 1995



EMPLOYEES ARE CHANGING

POPULATION

The total US population will increase by less than 10% over the next decade.



into other industries. With these people out of the pool, the competition for the services of the non-technical intensifies.

True, retailers are computerizing more and more of their operation, partly to counter the shortage of help. And while some people are needed to run these computers, those people are more likely to take higher-paying jobs in other fields.

Still another factor adding to the manpower problem is the *attitude* of today's younger people. With jobs to choose from, many will opt for those with evenings and weekends free. At a time when retailers are modifying store hours to accommodate customers who work 9 to 5, Monday to Friday, retailing's hours just do not suit the lifestyle of today's young people.

What To Do?

The problem is large, but there are solutions to consider (is there a choice?).

For starters, consider *changing retail pay scales* over time. At least, cut the differential between our scales and those of competing industries. Included for reconsideration must be benefits as well as salary.

To attract and keep good people serious attention to *career opportunities* must be given. This means the entire role of human resources will become more criti-

POPULATION CHANGES

Age Group	1980		1990		2000	
	# in Thousands	% of Total Pop.	# in 000s	% of Total Pop.	# in 000s	% of Total Pop.
15-19	21,123	9.3	16,957	6.8	18,950	7.1
20-24	21,605	9.5	18,567	7.4	17,126	6.4
25-29	19,763	8.7	21,503	8.6	17,360	6.5
60-64	10,134	4.5	10,639	4.3	10,494	3.9
65-69	8,805	3.9	10,006	4.0	9,110	3.4

Source: Bureau of the Census

cal over the next 10-to-15 years. Novel methods of recruiting will have to be created to attract more and better candidates. Job candidates must be able to see career paths and potential for growth if they are to consider retailing seriously.

In addition, management will have to make a greater investment in *training*. Not only is training on how to ring up a sales needed, but also on more general areas. Employers may have to be the ones to deal with language and culture deficiencies. Without the option to replace a poor performer, retailers may be forced to do what's necessary to get a better performance.

Other solutions may be to hire more *older workers*. The 60 to 69 year-old group will grow by 9% from 1980 to 1990. Many of these people will retire early, with the intention of taking less demanding part-time positions. As a group, these are healthy, active people who have proven to be stable and loyal employees.

Some help is also seen in the waves of *immigrants* coming to the United States, particularly in the 16-24 age group. Besides the traditional points of departure, many of today's immigrants are coming from Vietnam and Thailand. But retailers may have to deal with language and cultural barriers in order to take advantage of this source of employees.

Another source of assistance for certain jobs might be the *handicapped*. Many organizations have found that individuals with mental and physical handi-

caps working in the right positions are extremely competent and loyal employees. Agencies which place the handicapped often can train individuals for a specific job and will provide retraining periodically if needed.

Women may be still another source of help. While women in the workplace is no longer a revolutionary concept, catering to their special needs may be. For example, well over 50% of women with pre-school children work outside the home. Many women may seriously consider a job simply because it offers fringe benefits to subsidize child care, or provides, perhaps with neighbor businesses, child care facilities.

Time for New Thinking

Retailing has had problems before and solved them, as it will solve this manpower problem. The solution will come, however, from people who recognize that when old ideas do not work, new ones must be tried. Some attempts may fail, but eventually the solutions will be found. The companies that work at the problem will be those to solve it and survive it.

A basic tenet of business is that a company's people are its most important assets. Too many managers pay only lip service to that principle until they find themselves strained by the inadequacies of their help. To survive the next decade, retailers will have to give at least as much attention to their employees as to their inventory and buildings. If they don't, the inventory and buildings won't matter. ■

MAKING SERVICE PROFITABLE

**Service should equal profit.
If that isn't true in your operation,
here are some suggestions
to turn things around so it does.**

There are as many ways to mismanage a retail service operation as there are Chevrolets on the road. And about as many ways to do the job right. This section will help aftermarketers with service facilities, those not yet in the service segment, gain insight on ways to run an efficient, problem-free, and profitable service operation.

The Hidden Costs Of Service

Accountants will tell you that the costs of service can be seen in the overhead and salary percentages, compared with sales dollars for parts and service.

Maybe. But not entirely.

Those numbers give you an indication of service costs, but the numbers are rather poor indications of what does, and what doesn't, work to make service the financial success it can be.

The major hidden costs in service—the ones not shown on the balance sheets and financial statements—have to do with under-utilization and/or mis-utilization of equipment and people.

If the service hardware you buy, and the service technicians you hire, lose any time—it's profit lost. You will never recoup a lost minute the way you might be able to recoup a lost parts sale.

It is important to examine the factors, both hardware related and people related, that can get between you and a profitable service operation. Here are a few items to check.

The Hardware Factor

There's a lot of expensive diagnostic hardware on the market today. Cost, however, is relative. If a piece of hardware can do the

jobs you need done, and produce a profit—fine.

The critical question is: Can it do the job and make a profit? If the answer is no, then any expense is too much!

Many service managers purchase a piece of hardware because the competition did. Don't believe that what other people do is good for you. Maybe—just maybe—they don't have the foggiest idea of how to run their businesses.

Take the time to find out the truth for yourself.

You must ask yourself these questions every time you consider a hardware purchase: What jobs do I need done? Can this hardware do the job? Does it do more than I need? Can I avoid paying for what I don't need?

You'd be surprised how often a less extravagant piece of equipment can do what's wanted.

So you bought it? So what? What if it doesn't get used? Too often management gives the shop the tools needed to do the job and just walks away.

This is not acceptable behavior. You must continually be on guard against the "dusty machine"—the one which gets shoved into the background.

This relates, very closely, to the lack of adequate management controls in your paperwork system. If you can't tell whether or not a piece of equipment is being used—how can you decide whether or not it is good or bad, or whether or not your men need more training?

You've heard horror stories about serviceability and service.

Of course, you wouldn't purchase hardware without checking on whether or not parts are available, where they are warehoused or stocked, and who is trained to do the service, would you?

Would you believe 90 days to get a vacuum transducer for a diagnostic computer? With the factory just a few miles away?

If you purchase diagnostic hardware or other capital equipment, can it be expanded and adapted for future cars? Again, you'd be amazed how many shops don't look to the future in this business.

Unless you think car design is going to stagnate, you need to think about the next generations of cars you will service.

Obsolescence should be a major factor in your purchase decisions. And you should realize that depreciation rates exist (and will, even after tax reform) because hardware does get older, and will need replacements.

And finally, give some thought to dedication and flexibility. If you have a franchise oil change operation, go ahead and put in a pit. But a pit for alignment? Maybe. But probably not.

The problem of tying up valuable space due to equipment demands is becoming less of a problem as manufacturers make better use of remote consoles, data transmission, etc. But, it pays to ask the question: Am I going to lose flexibility because I elect to do a specific job or use a specific piece of hardware?

Dedication can be expensive.

The People Factor

If you are entering a new service area, or expanding in a familiar one, have you made allowance for training? Are the mechanics sent to the schools available for training? Are the dollars made available for their training?

Being cheap on training is being cheap on productivity! And, mistaking familiarization for training is the deadliest mistake of all, according to the better equipment reps. The typical complaint is this: "The man installed

MAKING SERVICE PROFITABLE

the machine. I got all my technicians around the thing after work. And all the trainer did was show them how to hook it up!"

Sorry, friend: that's all familiarization is supposed to do. Your technicians are supposed to know how to repair a car. Familiarization has to do with utilizing a particular piece of equipment in light of your existing knowledge of repair, not how to repair a car.

If your people really know how to do repair, then familiarization is all they need. If, however, you are launching a new service for which your techs have little fundamental training, and even less experience, then it's back to school, and that costs money.

Too many service organizations expect their technicians to upgrade their own skills and knowledge, all by themselves.

If management does not have a plan for updating and retraining technicians, then you trust to luck if you expect them to repair the turbochargers, electronic suspension systems, anti-skid brake systems, and other developments which are just around the corner.

We're not talking hardware here; we're talking brainpower. Don't talk yourself into thinking that the new hardware can do it all. It only does some of the job. Your men do need reeducation. Our industry is one which will be driven by professional technicians, and professional means continuing education.

Service managers who don't have a mix of ages in their bay staff should worry. There should be some gray hairs, some smooth chins. In other words, you want age, wisdom, and perspective—and youthful enthusiasm, entry skills, and potential.

Our business only grows through an apprenticeship system, as is true of all craft trades.

A manager without apprentices is probably insecure as hell. Think about it. This is a very sneaky hidden cost. You wind up with a shop of grizzled veterans. No one has stimulated their thinking, and the market suddenly passes you by. We need

youth in our bays.

Treating Your Mechanics Right

Included in the people factor is how you treat your mechanics. Treating your mechanics "right" is key to any successful service operation. How to do it is no mystery—simple common sense will do the job.

When the going in the service area really gets rough, and employee/manager relations reach the rumor, anger, bitter, and "I quit/you're fired!" stage, it is management that is at fault. Most good managers don't deny this concept: 100% of all employee/management problems are created by management. Good managers realize that failure to exercise due care when hiring may saddle their business with a chronic malcontent.

They also realize there is a imperative to perform correctly, as management, after the hire. If an enthusiastic, talented employee loses his enthusiasm and becomes unhappy, it is inevitably the fault of management.

Which brings up the question, how should you treat a mechanic?

We have no intention of going into a lot of psychological claptrap here. The employee relations gurus will be happy to give you all sorts of needs fulfillment charts that are supposed to tell you how to treat employees. Instead, we're going to rely on our observations and list a half dozen factors successful managers use to cultivate the loyalty and continued enthusiasm and competence of their staff.

Input To Management

- **Successful service operations offer employees the right to contribute to the decision-making process of management.**

One regular subject of the cartoonist's pen is the suggestion box. We find this very unfortunate. It has helped to perpetuate the myth of the worker ignorant of management's needs and the myth of the manager who considers workers stupid or witless. As we say, these are myths.

There are thousands of companies in this country who use the suggestion box concept as the lifeblood of business improvement. The Japanese are flat-out having our lunch by using the suggestion box concept, and most smart U.S. companies are going back to it in droves. And profiting thereby.

You must demand and use the suggestions of your employees—their contributions to management—if you are going to prosper in this business.

When was the last time you sat down with your sales staff and tech staff—including the parts chaser, tire buster, and porter—and told them what your business was all about? Told them what you think makes it tick? Told them their role in the overall framework of doing the job and relieving the grateful customer of his money?

When was the last time you actively solicited the brainpower of your mechanics in improving your business? By actively we mean actually holding a meeting and calling for ideas, rather than having some weak policy statement buried somewhere in some employee manual.

Clearly, not all employees are going to jump to their feet quoting from Peter Drucker or W.E. Demming. In fact, most employees will want to discuss their ideas with you, privately.

If you are going to solicit employee ideas, then you must give them a private path to express their ideas. And you have to be encouraging. If an employee has an idea that is workable, give it a try. Then, whether the idea works or not, be lavish with acknowledgment and praise for the idea. Remember this well: If employees get praise only when their ideas work, they will be afraid to offer ideas that might be eventual failures. And people need the right to fail if they are going to work toward success.

Equal Treatment

- **Successful service operations give employees even-handed and equitable rules**

MAKING SERVICE PROFITABLE

and regulations.

Nothing is as destructive to the morale and attitude of employees as management favoritism or uneven application of rules and regulations.

Most of the employers usually follow a cycle of strictness, followed by laxity (until employee attitudes deteriorate to a very low level) followed by renewed strictness, more laxity, etc.

Employees do not like this continual yanking of the rug from under their feet.

Employees demand consistent, even, equitable, and fair application of all rules and regulations at all times for all personnel. When this demand is not met, they leave for other pastures, greener or not.

The Employee Manual

• Successful service operations have detailed, explicit, well-tuned employee manuals.

We asked one very bright and successful business owner—a leader in the automotive aftermarket business and a contributor to many aftermarket associations, panels, and trade groups—how many people he had employed before he instituted his company's employee manual. His answer: "One."

Typically, in writing and refining an employee manual, you will eventually learn that the typical job description should be much longer than most employers think. It should never come as a surprise, to either employer or employee, when a task is requested of the worker.

We also think the employee should be able to see the job description, in detail, as it relates to the boss.

There is good reason for this seeming over-reliance on formal documentation of employer/employee relationships: Both need an ironclad source of arbitration for disputes.

There are lots of managers who think they enjoy a "paternal" relationship with their employees. This relationship is about as unhealthy and stupid as

any relationship in our business. Paternal relationships, you may remember, are often highly arbitrary. After all, the good will we get from a *pater familias* is something we get without earning it. Which means it can be withdrawn at any time.

What employee, with drive and determination of his own, is going to accept a father image for a boss? None we'd want to hire. You need an employee manual, both for the protection of employer and employee, and for the healthy relationships it produces when it is evenly enforced.

More Input To Management

• Successful service operations consult directly with their service personnel on actions that affect the service bays.

It is an unfortunate fact of our business that most decisions regarding service bays are not made by people who work—or have ever worked—there. Most of the decisions are made by high-powered business executives who wouldn't think of letting a mechanic choose the office computer. Yet, these gentlemen feel perfectly competent to listen to a salesman's pitch and decide what sort of hardware to procure for the technicians.

Large manufacturing corporations seldom let their management engage in this sort of foolhardy behavior. They insist upon purchasing committees and intelligent discussion between management and operations before capital is spent.

But we can take you for a sad tour of many shop areas, where you will see equipment gathering dust, or turned to the wall, or broken and not repaired. We can even show you locations where brand new hardware, purchased in anticipation of rising task levels, stands idle and unused after months of availability to the technical staff.

Why this legion of ill-used diagnostic computers and other hardware? Usually because management failed to ask operations what the talent in the bays thought might be useful.

Money Counts Too

• Share the wealth.

In case you were wondering, this topic comes largely under the heading of "fair and equitable management." Not under the heading of "greed."

After all the other factors mentioned, mechanics have a learned sense of fairness about who gets what for doing what.

The parts people, as salesmen, are usually on some sort of commission system. In the service bays, you also have sales people. They occasionally are offered commissions, too. For what? Usually, for parts sales. Not for labor sales, in most cases. This tends to exalt the parts selling business, and denigrates the labor business. Not a very attractive commission for a man who values his labor!

There is a real danger in having mechanics on commission in a typical fee-for-service operation, of course. Nevertheless, most service management doesn't begin to make use of bonus and incentive payments correctly. This is primarily due to confusion about how to go about it. Face it: Commissions on parts sales are fairly easy. Commissions on service sales are a little harder to deal with.

Having a bonus system, based upon efficiency and productivity—not the sale of parts—is exactly the kind of system most mechanics would love to have. However, this puts a burden on management to track productivity—something that far too many management organizations in our business are either too busy, too lazy, or too embarrassed to do.

Usually, it is laziness, thank heaven. And by laziness, we mean failure to determine what data needs to be captured, failure to investigate incentive systems, and failure to institute, maintain and refine the data capture and incentive payment schedules so they make sense to the workers, management, and bean counters, alike.

Most service personnel will be delighted to respond to almost

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any sort of reasonable incentive program. You can base it on almost any benchmark—average jobs done per day over a quarter; gross ticket improvements over a quarter; or other reasonable benchmarks. If you want to factor in variables such as team efforts, inspection systems, etc., so much the better.

Does this mean more work for managers? Sure, it does. But it also means increased worker productivity, increased gross dollars and profits, increased job satisfaction and esprit de corps, improved customer relations and satisfaction, increased retention of existing workforce and easier recruitment of new and talented workers.

Training

• Successful service operations provide some type of on-going training.

As we said above in the "People Factor" section, train, train. It pays, pays, pays.

If you are a manager, and think what we've mentioned here doesn't make sense, we suggest you ask your service personnel if it makes sense to them. Then look at other successful service operations. The list of "how to treat your mechanics" can be longer—but the ones on this list are more than a good start in the right direction!

Once you're heading in the right direction, you can begin to look at individual service profit opportunities.

Tune-Up Service Opportunities

Tune-ups are, perhaps, the most controversial automotive service area. You will find more heated arguments, wild opinions, and rumors about tune-ups than about anything else.

Almost universally, if you ask shops with tune-ups in their service mix, what their worst problem is, they will say, "Comebacks on tune-ups. These jobs just don't stay sold!"

What does it take to do a tune-up, anyway? What will make the customer happy? Is this job impossible, today? Good questions. We'll try to give you some intelli-

gent answers.

First of all, be assured there are shops that make a profit from tune-ups, and wouldn't have it any other way. Other shops do the work—or think they do—but do only "so-so" in terms of profit. And, there is also a fairly wide philosophical divergence regarding the tune-up. Let's state the most diverse:

- **Philosophy #1:** Replace only what needs replacing, and only those parts which are in common—that is, not "dealer only" parts. Guarantee the work.
- **Philosophy #2:** Diagnose the car's problems according to the latest technology, and sell the customer the fixes which need doing.

The Parts-Oriented Tune-Up

The first philosophy is very customer oriented. It makes one very important (and apparently accurate) assumption: that the customer is parts-oriented. The customer finds it easy to equate the replacement of a part with an "engine tune-up." Not so the jobs without some parts replacement. In the case of the customer/fault interface, it is much easier to hold up a bad wire or hand the customer a scuzzy rotor and plugs than it is to point at the control module you have replaced.

It is obvious, that this parts-orientation is also much easier for the automotive chain executive. Counting SKUs is easier than discussing service hours. The parts-oriented tune-up is a comfortable concept.

What if the parts replacement doesn't have the desired effect? What if "the car still runs bad?" This is largely a function of communication. If you tell the customer his car is going to run good (or, at least, better than he thinks it does,) you have incurred an obligation—in fact, a contract—to actually make it run better. If you are smart—you won't do this.

Smart operators who work with a parts-oriented philosophy do not promise a better running car. They say, "These parts need to be replaced, and we can prove

it. If the replacement doesn't result in the desired performance improvement, if any, then it is not the fault of our work. Where the problem is mysterious, you will have to return to the car dealer to have the car fixed."

Does this sound like a cop-out? It is. But it seems to reflect today's aftermarket reality, too.

The Diagnostic Tune-Up

In most cases, service provided in this category pays for expensive diagnostic computers. Some installations run well over \$50,000, with in-floor dynos, etc. For this money, unfortunately, the service outlet frequently purchases the right to promise a lot and deliver very little.

The problems is that the computer can be no smarter than the expert it is supposedly emulating or the people who programmed it. And there are sometimes "bugs" in the system. These machines can not make decisions on their own.

Some of the diagnostic hardware available now, and much of it coming in the future, is truly remarkable. Some of it is probably better than the diagnostic gear the OE folks are dreaming up for their engine systems. We love the new diagnostic hardware and wouldn't even consider doing engine service without the best.

But none of it can possibly be all things to all men—or all engines.

This leads to another fairly inevitable conclusion: if there are "bugs" in all computer systems, what about the "expert system" diagnostic charts which appear in the OE literature? Sorry, Virginia—there is no Santa Claus.

Is there any hope? I think there is a way out of this mess, especially for the aftermarket service organization trying to deliver good service. You can take one of four tune-up positions:

• Position One: Be A Parts Replacer

One of the positions you can adopt is: "We replace parts." If you perform the regular maintenance shown in the car manuals,

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and use your banzai diagnostic equipment to do preventive checks on various systems—to catch faults even the car owner wasn't aware of—you can reasonably charge for a valuable maintenance and preventive diagnostic service.

• Position Two: Be A "Diagnostic Source"

You can position yourself as a technical and diagnostic source. Use your diagnostic hardware to define problems as well as possible (and how well you do it depends upon the hardware and the capability built into it) and then repair what you can. This is a "non-parts" position, where you offer a service rather than a parts replacement capability as a primary position.

• Position Three: Be A Specialist

This means that you take your personnel and develop specialists in specific makes of cars, and/or specific systems on each car. This allows the technician to learn all about a specific system. It allows him, in practice, to be "better than the diagnostic hardware," believe it or not. He can apply his own experience to by-pass certain diagnostic test routines which he knows are non-productive, and to concentrate on diagnosing pinpoint areas which are indicated by the car's symptoms.

• Position Four: Be An Advisor Only

A last option is to use the diagnostic hardware simply as a sales device. Test cars and provide printouts which lead the customer to his own purchases for DIY installation—or to shop installation directed by the customer. This relieves the shop of the burden of a correct diagnosis. In this case, all the technician needs to know how to do is remove and install properly.

In each case, determine exactly what the customer expects from your every verbal "promise"... and be careful not to dig yourself a hole by promising more than you can deliver.

Ride Control Service Opportunities

A lot of industry experts will

A TEST ON THE HIDDEN COSTS OF SERVICE

My service managers attend management seminars annually.

T F

My technicians attend a technical seminar twice each year.

T F

Familiarization is not training.

T F

My paperwork establishes percentage efficiency levels for each man.

T F

My paperwork establishes percentage efficiency levels for each bay and each major piece of equipment.

T F

I review my paperwork systems each year.

T F

My paperwork could be (and will be) converted to a computer system.

T F

Any job can be done in any bay, although technicians have specialties.

T F

I have all diagnostic hardware checked for calibration annually.

T F

I have the shop cleaned, professionally, at least once a week.

T F

I use glitch sheets to write up faults in hardware, tools, and equipment, and review them daily or weekly.

T F

I have technicians review service equipment and procedures.

T F

My best technicians attend management training seminars annually.

T F

For each T or true answer, give yourself five points. For each F or false answer, give no points. Total all answers. We suggest the following scores as guides:

40-66 There aren't many hidden costs lurking in your operation. And we'd like you to take a look at our car!

30-40 Not bad, but you can maximize efficiency with a little attention to detail.

15-30 About average, unfortunately. 10-15 Isn't it nice to know the enormous gains which management improvements will give you?

0-10 Plantation management of work here? Is anyone paying attention? You'll also be happy to know you've got a lot of company in this group.

tell you that ride control and suspension work is going to be very important—increasingly important—in the future. We agree.

The important aspect of the change to struts, front wheel drive (FWD), four wheel drive (4WD), rack and pinion (R&P), and gas shocks is that the customer's expectations will be heightened. Those working in the imported car ranks saw it happen years ago. Customers simply demanded more out of their cars; more performance, more smoothness, more responsiveness, better transition behavior—all at the expense of a boulevard ride. So there are new opportunities for excellence in service.

But in fact, it is not the newness or the novelty of these items

which will generate business. It is not the need for training, new service techniques, or new tools which will create the need for expertise in suspension and ride control. What cause the demand? The secret word is weight.

Weight Is The Key

Weight—bulk—mass—has been used to hide inadequacies in suspension design. If you make the sprung mass great enough, the sheer inertia of the mass tends to isolate the driver and passengers from whatever irregularities appear in the road.

This is just fine if opulent comfort is what you have in mind, but not if superior braking, nimble handling, and decent fuel mileage are what you want.

Mechanics weaned on imports

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have known this for years. The domestic car mechanic is just gaining this knowledge. The loss of mass from the domestic car has created problems which can mean greatly increased service bay business for the smart service provider.

Plenty of experienced import alignment men—and an increasing number of domestic alignment men—keep weight adding devices, such as lead strips from plumbing contractors, handy to balance loads to match the normal driving configurations of the customer's car.

Low vehicle weights—particularly low sprung mass weights—create problems and opportunities, as you might imagine.

Small variations in vehicle loading can create unusual, and correctable, steering and suspension problems. Minor wear in ball joints or bushings can steer cars in unusual ways.

The typical alignment expert of the future will be prepared to measure some much smaller tolerance ranges than heretofore, and he will be ready to adjust for much smaller increments in providing correction.

Does this indicate the need for equipment with finer increments of measurement when it comes to caster, camber, and toe? Maybe. On the other hand, it is primarily the operator's skill and dedication to accuracy which will make the difference. The slipshod or careless technician won't be able to make the best or most expensive equipment look good, and vice versa.

New Equipment Needed

Some changes in cars will require new equipment, however.

Four wheel alignment, you are thinking. Not hardly. You have to be able to do four wheel alignment, of course. But you can do it with your old equipment if you are prepared to take the time to do it. There isn't an alignment manufacturer who won't tell you this, too. Naturally equipment which is designed to do the four wheel job will do it faster.

However, the new suspension

systems will dictate measurement of unusual suspension angles and relationships.

For instance, there is negative scrub radius steering, the suspension system that tends to prevent wild steering gyrations in the event of a blown front tire. However safe and good for stability, this design makes for large changes in track movement and angular changes when measuring caster, SAI, or toe in turns. Again, many suspension shops resorted to stop-gap measures.

And now there is an offset ball joint design which requires a 60° swing instead of the traditional 40° swing for some measurements. Now almost all alignment plates are close to inadequate—if you are going to perform your measurements the way the manufacturer wants them performed. What are you going to do when and if GM puts the idea on every car?

Your alignment spec manuals will show you lots of small cars with steering angles in excess of the 40° total we have always dealt with. Lots. If your equipment isn't up to par on these cars, imagine how far behind you'll be very shortly.

Constant velocity joints (for both FWD and 4WD) impose new requirements on equipment as well. Cars in these categories have a demand for adjusting and limiting the steering lock on the vehicle. Why? Because failure to do so can result in severe and unusual wear of the CV joints (which cost hundreds of dollars apiece) or, at the very worst, can pop the CV joint and spew its innards all over the street.

Will you need new parts to service these cars? Yes. Will there be new service opportunities in this area? Of course. Is there a new equipment imperative here? Yes there is.

Rack And Pinion Too

Not everyone lumps wheel service with suspension and handling; but, with small, light, nimble cars, we have to do so. Again, heavy cars tended to absorb a lot of the shaking and imbalance

forces caused by wheels and tires of marginal truth. This is where rack and pinion steering comes into the picture as well.

The typical steering gear on a domestic car was a recirculating ball system with a pitman arm, idler arm, relay rod, and tie rods. The nice thing about this steering system was it turned the rotary motion of the steering wheel through a 90° angle on its way to the steering linkage. This meant it was easy to create motion toward the linkage—but difficult to reverse the direction of force.

Rack and pinion, on the other hand is completely reversible. It damps out almost none of the road shock or wheel imbalance. Thus it is vitally important to be certain that all parts of the system are tight and adjusted properly.

Loose wheel bearings, improperly tightened lug nuts, and poor lubrication all tend to be magnified with R&P, and especially on a small, light cars. (Heavy cars with R&P, again, tend to mask flaws in the system. But they are a disappearing breed.)

As we said at the outset—forget the novelty of the new designs. The benefit for the service department is in the standard of excellence your customers will demand. That is a great situation for the shop with desire to excel.

Brake Service Opportunities

Is there such a thing as a "cheap brake job?" Sure, there is. If you examine the car and you find no unusual condition which would cause you to refuse the job, then maybe all you need to do is replace a set of disc brake pads or brake shoes and send your customer away after he pays your lowball advertised price. Maybe there is a fair percentage of customers who respond to your promotional brake job price who will not get more than the minimum.

If so, shame on you. The name of the game in brake service is "sell up." And if this is the name of the game, it is up to you to do the selling. If you don't get the sell up, don't blame the car, the owner, the technician, the adver-

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tising, or the marketplace.

And certainly do not blame the brake friction and parts manufacturers or the car makers. These folks have done wonders in providing the brake service marketer with the goods it takes to make the sell up: new systems, new service requirements, new products, and new reasons to buy them all.

Also, do not blame the equipment manufacturers. They have done plenty to make the job more profitable as well, with new equipment which works faster and more accurately—including on-car resurfacing tools that expand your market while increasing your labor margins.

The reason you should love "cheap brake jobs" is because they give you a chance to inspect the car. Typically, your customer has a good idea that something is wrong with his vehicle. Brakes—like exhausts, batteries, and some other systems—are largely self evident when in need of repair. The car stops "funny," or drives to one side, or makes noise, or the brake warning light comes on. Something happens to make your customer think he needs a brake job. And in many cases, it is your lowball special advertised price which triggers him to turn into your service operation.

Then, the inspection begins.

Factors Which Create A Sell Up

The number one factor in creating a sell up is fear. The shop manager's fear. Your lawyer's fear. There is a liability factor for the shop which works on brakes. Your experience may be otherwise, but mine is that even the worst shop in my marketing area did a reasonably competent job on brakes. They simply could not afford not to.

Thus, your primary concern during an inspection is, "Forget about the brake special: what do I have to do to make this car stop as it did out of the factory?"

In order to do a competent inspection, you need an inspection checklist. There are three reasons for this:

- **The first is, again, a legal one. You want a record of your inspection.**
- **Second, you want a reference guide for the service manager or advisor so he can lead your customer through the process of exceptions and add-ons to the promotional price—if any.**
- **Third, you want a reference guide for the technician so he doesn't miss anything.**

This, clearly, is where a little salesmanship begins to come into the picture. Your ability to create a believable image as a service shop and service advisor to your customers largely governs the success of the purchase of the basic "safe" brake job. If you clear this hurdle with your customer, your next step is the sell up.

Sell Up To What?

Rotor or drum turning is not a sell up, except on cars with massive rotors or drums, which are primarily older cars. Turning rotors and drums can produce a smoother, slightly more effective braking action. It can also extend the life of the brake friction materials.

But, on today's downsized cars, removing material from the rotor or drum which isn't required to bring the surfaces into factory tolerances is certain to create—not solve—noise, warpage, and pedal action problems.

Any time you remove material (especially from a rotor), you should warn your customer about the potential for squeal. If the resulting squeal is tolerable to your customer, then you've lost nothing. If your customer is sensitive to noise, then the sell up is to a new rotor or drum.

Selling up for noise control is relatively easy. It isn't your fault, because you get a chance to lay the blame at the car maker's feet. And it is a decision made by your customer, therefore, not purely your decision.

The second sell up is a maintenance sell up. There is no more beneficial and (to the technician, at least) satisfying job than flushing the brake system and bleeding all the lines. Getting rid of

the residual moisture in the brake fluid, and creating a truly hard pedal with all the air out of the lines, is a great service job and one which customers usually have no trouble appreciating. And, since it is a part of the zone of repair, it is profitable from both a parts and a labor standpoint.

Wheel bearing repackaging and seal replacement is an obvious sell up, whether rotors are removed for resurfacing or not. Most vehicle owner's manuals specify a regular repack interval. Again, the sell is not yours, but the manufacturer's.

A fourth sell up is preventive maintenance on the calipers and/or wheel cylinders. The older the vehicle, the more likely there has been some corrosion of the caliper piston or wheel cylinder bore. Honing, replacing rubber parts, replacing the piston—or whatever—is good practice, but a trifle difficult to show and tell. If you have good manufacturer literature which does the graphic explaining for you, you are better off than merely trying to talk your way through the job.

The Most Important Sell Up

The most important sell up, clearly, is friction materials. Your brake service special must, at a minimum, be for original equipment lining specifications. You can not afford to do otherwise. Period.

If a car was delivered with organic linings, then this is the minimum your offer can be. If the car was delivered with a semi-metallic lining, then an organic or other type of lining is not good enough for the car. You must match OE specs at the very least.

However, there are very few friction materials manufacturers who do not offer several grades of brake friction materials. Each upgrade offers a higher level of performance, for which there is a higher cost and a higher profit.

All and all, if you are not getting your share of profit from your service operation, you have no one to blame but yourself. ■